

***United States Court of Appeals  
for the  
District of Columbia Circuit***



**TRANSCRIPT OF  
RECORD**



347

IN THE UNITED STATES COURT OF APPEALS  
FOR THE DISTRICT OF COLUMBIA CIRCUIT

No. 21,661

FIRST NATIONAL CITY BANK,

Appellant,

v.

INVESTMENT COMPANY INSTITUTE, ET AL.,

Appellees.

No. 21,662

WILLIAM B. CAMP, Comptroller  
of the Currency,

Appellant,

v.

INVESTMENT COMPANY INSTITUTE, ET AL.,

Appellees.

ON APPEAL FROM THE UNITED STATES DISTRICT  
COURT FOR THE DISTRICT OF COLUMBIA

REPLY BRIEF FOR APPELLANT  
COMPTROLLER OF THE CURRENCY

United States Court of Appeals  
for the District of Columbia Circuit

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## I N D E X

	<u>Page</u>
I. Appellees Do Not Have Standing To Maintain This Action.-----	2
A. The Mere Allegation That An Activity Is Unlawful, Without A Showing That The Resulting Competition Violates Some Legally Protected Right Of The Plaintiffs Themselves, Is Insufficient To Confer Standing To Attack The Administrative Ruling Allowing That Activity.-----	2
B. Appellees Cannot Claim A Statutory Right To Be Free From Competition By National Banks, Since They Have Not Shown That The Primary Purpose Of The Glass-Steagall Act Was To Protect Them From Such Competition.-----	12
C. There Is No Independent Ground For Standing Under The Administrative Procedure Act.-----	14
II. The Comptroller's Action Was Within His Statutory Powers And In Accordance With The Applicable Law.-----	16
A. The Commingled Account of Citibank Approved By The Comptroller Is Authorized by 12 U.S.C. 92a.-----	16
B. Citibank's Commingled Account Does Not Violate The Provisions Of The Glass-Steagall Act.-----	21
Conclusion-----	31

## CITATIONS

### Cases:

Alabama Power Co. v. Ickes, 302 U.S. 464 (1938)-----	11
American Trucking Ass'ns v. United States, 364 U.S. 1 (1960)-----	12
American Trucking Ass'ns, Inc. v. Atchison, T. & S.F.R. Co., 389 U.S. 397 (1967)-----	20

## Cases:

## Page

Arnold Tours, Inc. v. Camp, D. Mass., Civil Action No. 67-372-C, decided July 11, 1968, appeal pending, C.A. 1, No. ____	10, 11
Association of Data Processing Service Organizations, Inc. v. Camp, 279 F. Supp. 675 (D. Minn. 1968), appeal pending, C.A. 8, No. 19,218	10, 11
Baker, Watts & Co. v. Saxon, 261 F. Supp. 247 (D.D.C. 1966), affirmed on other grounds <u>sub nom.</u> Port of New York Authority v. Baker, Watts & Co., ____ U.S. App. D.C. _____, 292 F.2d 497 (1968)	10
Brooklyn Trust Co. v. Corwin, 5 F. Supp. 287 (E.D. N.Y., 1933)	20
Brown v. Christman, 75 U.S. App. D.C. 203, 126 F.2d 625 (1942)	19
Camp v. Georgia Ass'n of Independent Ins. Agents, Inc., ____ F.2d ____ (C.A. 5, Nos. 25,050 and 25,060, decided August 12, 1968), petition for rehearing pending	10
Chicago v. Atchison, T. & S.F.R. Co., 357 U.S. 77 (1958)	11, 13, 14
FCC v. Sanders Bros. Radio Station, 309 U.S. 470 (1940)	12
Frost v. Corporation Comm'n, 278 U.S. 515 (1929)	11
Hardin v. Kentucky Utilities Co., 390 U.S. 1 (1968)	2, 6, 9, 12, 13
Kansas City Power & Light Co. v. McKay, 96 U.S. App. D.C. 273, 225 F.2d 924, certiorari denied, 350 U.S. 884 (1955)	14
NASD v. SEC, C.A.D.C., No. 20,164	18
Nuesse v. Camp, ____ U.S. App. D.C. _____, 385 F.2d 694 (1967)	11
Pennsylvania Railroad Co. v. Dillon, 118 U.S. App. D.C. 257, 335 F.2d 292, certiorari denied, <u>sub nom.</u> American Hawaiian S.S. Co. v. Dillon, 379 U.S. 945 (1964)	4, 5, 6, 9, 12, 15



# Cases:

	Page
Railroad Co. v. Ellerman, 105 U.S. 166 (1881)-----	7, 8, 9
Rural Electrification Administration v. Central Louisiana Electric Co., 354 F.2d 859, certiorari denied, 385 U.S. 815 (1966)-----	8, 12
Tennessee Power Co. v. TVA , 306 U.S. 118 (1939)-----	3, 6, 7, 9, 11
Udall v. Oelschlaeger, _____ U.S. App. D.C. _____, 389 F.2d 974 (1968)-----	20
Webster Groves Trust Co. v. Saxon, 370 F.2d 381 (C.A. 8, 1966)-----	11
Whitney National Bank v. Bank of New Orleans & Trust Co., 116 U.S. App. D.C. 285, 323 F.2d 290 (1963), reversed on other grounds, 379 U.S. 411 (1965)-----	11
Wingate Corp., The v. Industrial National Bank, D.R.I., Civil Action No. 3847, decided July 25, 1968, appeal pending, C.A. 1, No. 7186-----	10, 11

# Statutes & Regulations:

Administrative Procedure Act, Section 10, 5 U.S.C. 702 (Supp. III, 1965-1967)-----	14
Glass-Steagall Act, 12 U.S.C. 24, Seventh, <u>et seq.</u> :	
Section 16-----	18, 21, 26, 30
Section 20-----	21, 30
Section 21-----	21, 30
Section 32-----	21, 23, 26, 30
Internal Revenue Code, Section 548-----	17
Investment Company Act of 1940, Section 10, 15 U.S.C. 80a - 10-----	22, 28
Merchant Marine Act of 1927-----	4, 5, 6
Securities Act of 1933, 15 U.S.C. 77(b)-----	22
12 U.S.C. 92a(a)-----	20, 21
12 U.S.C. 92a-----	1, 13, 16, 18, 19, 21, 30

Statutes & Regulations:	Page
12 U.S.C. 92a(j)-----	20
12 U.S.C. 248(k)-----	18, 19
New York Banking Law, Section 100-----	20
Tennessee Valley Authority Act, Section 15d-----	9
12 C.F.R. 9-----	24
12 C.F.R. 9.12-----	27
12 C.F.R. 9.18-----	27
12 C.F.R. 218.17(f)-----	26
12 C.F.R. 218.111-----	23
20 F.R. 3305 (1955)-----	19
33 F.R. 13001, 12 C.F.R. 218.113 (September 14, 1968)---	26
Miscellaneous:	
1934 Fed. Reserve Bull. 609-----	18
1937 Fed. Reserve Bull. 392-----	19
Hearings on Common Trust Funds -- Overlapping Responsibility and Conflict in Regulations, Before the Legal and Monetary Affairs Subcommittee of the House Government Operations Committee, 88th Cong., 1st Sess. (1963)-----	17
Hearings on S. 2704 Before a Subcommittee of the Senate Committee on Banking and Currency, 89th Cong., 2d Sess. (1966):	
p. 22-----	22
p. 63-----	17
pp. 65-66-----	28
p. 73-----	17
p. 78-----	17
p. 99-----	26
p. 100-----	26
p. 113-----	28
p. 121-----	17
p. 122-----	17



# Miscellaneous:

## Page

p. 137-----	28
p. 196-----	26
p. 227-----	23
p. 228-----	23
pp. 239 - 241-----	28
p. 243-----	28
pp. 270 - 271-----	28
p. 293-----	23
p. 294-----	22, 23
pp. 482-499-----	28
p. 586-----	23, 27
I Loss, <u>Securities Regulation</u> (2d ed.), p. 144-----	29
<u>Restatement of Agency 2d</u> , § 14B, § 423 comment a, § 425, comment a -----	18
<u>Restatement of Trusts 2d</u> , § 179, comment f -----	20
I <u>Scott on Trusts</u> (3rd ed.), § 8.1, pp. 80-81-----	18
III <u>Scott on Trusts</u> (3rd ed.), § 227.9-----	20
42 Trust Bulletin No. 6, p. 10 (1963)-----	18





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REPLY BRIEF FOR APPELLANT  
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In our Main Brief we demonstrated: (1) that appellees have no standing to maintain this action; (2) that the Comptroller's authorization of Citibank's commingled account did not violate 12 U.S.C. 92a; and (3) that the authorization was consistent with the Glass-Steagall Act. Appellees' brief contests each of these propositions, and raises a number of points which will be answered here.

I. APPELLERS DO NOT HAVE STANDING TO  
MAINTAIN THIS ACTION.

The main thrust of appellees' standing argument is that they may attack the Comptroller's action on the basis of their allegation of "unlawful" or "illegal" competition in the part of Citibank (Appellees' Brief, pp. 66-78). Appellees further urge that standing may be predicated upon the fact that the Comptroller's regulations are otherwise unchallengeable (id. at 79), or upon the Administrative Procedure Act (id. at 79-83). Finally, apparently as part of their main standing argument, appellees assert that they meet the test of Hardin v. Kentucky Utilities Co., 390 U.S. 1 (1968), in that the Glass-Steagall Act was enacted for the primary purpose of protecting them from competition by national banks (Appellees' Brief, pp. 77-78). As we now show, none of these arguments has merit.

A. The Mere Allegation That An Activity Is  
Unlawful, Without A Showing That The Resulting  
Competition Violates Some Legally Protected  
Right Of The Plaintiffs Themselves, Is  
Insufficient To Confer Standing To Attack The  
Administrative Ruling Allowing That Activity.

In urging that one who alleges "unlawful" competition may challenge the administrative action making that competition possible, appellees ask this Court to adopt the following reasoning (Appellees' Brief, pp. 66-67): Federal law prohibits national banks from operating commingled managing agency accounts. 1/ Therefore, the operation of such an account by

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1/ Of course, this proposition must be taken as true in order to decide the standing question. The merits of the case will be further discussed in Part II of this brief.

Citibank is contrary to law, i.e., "unlawful." Since this activity is unlawful, the competition arising out of the activity is also unlawful. And, since competitors have standing to challenge unlawful competition, appellees may challenge the competition here and the administrative regulations which make it possible.

The fundamental fallacy in this reasoning is that it assumes that the alleged unlawfulness of the activity of appellees' competitors, the national banks, renders their competition unlawful as to these plaintiffs (the appellees). However, decisions of the Supreme Court and of this Court show that competition is not rendered unlawful as to a plaintiff simply because his competitor lacks the legal right to undertake the activity which gives rise to the competition. Instead, the decisions make it abundantly clear that economic "competition between natural persons is lawful" as to a private party unless he can establish that he has a "legal right" to be free of such competition -- "one of property, one arising out of contract, one protected against tortious invasion, or one founded on a statute which confers a privilege." Tennessee Power Co. v. TVA, 306 U.S. 118, 137-138 (1939). <sup>2/</sup> In other words, the

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<sup>2/</sup> We do not understand appellees to argue that they have either a property right or a contractual right to be free of competition from national banks, or a right protected against tortious invasion. As to the limited extent that they urge a statutory protection (Appellees' Brief, pp. 77-78), see Part I(B), infra.

relevant question to be asked is: What legal right to be free from competition does the plaintiff possess? The standing issue, unlike the merits of the case, does not involve the question of whether the defendant-competitor has acted unlawfully; except for some of the loan cases, plaintiffs have always alleged that their competitors and the governmental agencies involved were acting contrary to statute or to the Constitution.

Indeed, this Court's decision in Pennsylvania Railroad Co. v. Dillon, 118 U.S. App. D.C. 257, 335 F.2d 292, certiorari denied sub nom. American-Hawaiian S.S. Co. v. Dillon, 379 U.S. 945 (1964), provides the total answer to appellees' assertion that standing is established by nothing more than the allegation that the activity of their competitor, authorized by a federal agency, is prohibited by statute. In Dillon, the plaintiffs were railroads and the operators of vessels which were engaged in the coastwise shipping trade. Their complaint asserted that the defendant federal officials had authorized a competitor shipping company to operate vessels containing foreign-built midbodies in that trade, notwithstanding the fact that the Merchant Marine Act of 1927 (so it was alleged) prohibited such activity. The plaintiffs did not, as they could not, point to anything in the 1927 statute which could be taken as giving them a legally protected right to be free of that competition. Instead, they sought to establish their standing to maintain the suit by advancing precisely the same argument that has been advanced by the appellees here: since the activity (i.e., the carrying of freight in vessels having

foreign-built midbodies) was contrary to statute, it followed that the competition arising out of that activity was also unlawful and, therefore, they possessed standing to attack it. This Court, however, squarely held that the plaintiffs lacked standing to sue. In doing so, it flatly rejected the line of reasoning offered by the plaintiffs, and which is here renewed by the present appellees. As the Court pointed out (118 U.S. App. D.C. at 259-260, 335 F.2d at 294-295; emphasis added):

Allegation of a legally protected right is a constitutional predicate of standing to attack governmental action. \* \* \*

"Legal wrong" [as mentioned in the Administrative Procedure Act], as we have only recently noted, is the invasion of a legally protected right. \* \* \* Thus, in order to make out a claim of "legal wrong" \* \* \*, appellants must assert some legally protected right to be free of the competition provided by the two vessels whose documentation they are challenging. This court has very recently spoken on this aspect of standing. When "Congress has not given them any such standing by express or implied provision of : statute \* \* \*, mere economic competition made possible by governmental action (even if allegedly illegal) does not give standing to sue in the courts to restrain such action. Tennessee Electric Power Co. v. Tennessee Valley Authority, 306 U.S. 118 \* \* \*." Texas State AFL-CIO v. Kennedy, 117 U.S. App. D.C. 343, 345, 330 F.2d 217, 219 (1964).

In short, the fact that the activity authorized in Dillon was allegedly unlawful (i.e., in violation of the Merchant Marine Act) did not mean that it gave rise to "unlawful competition" insofar as the plaintiffs were concerned. Indeed,

appellees expressly concede as much (characterizing Dillon in their brief (p. 72, n. 63) as a "lawful competition" case). Similarly, in the present case, the fact that the activity of the Citibank is alleged to be unlawful (i.e., in violation of the Glass-Steagall Act) does not mean that it gives rise to unlawful competition insofar as these appellees are concerned. Rather, as in Dillon, the competition is deemed lawful unless it can be established that it invaded some legally protected right possessed by the plaintiffs. In Dillon, no such showing was made -- with the result that the plaintiffs were held to lack standing to challenge the allegedly prohibited activity of their competitor. Likewise, these appellees both do not and cannot show the invasion of a legally protected right possessed by them -- with the result that they too lack standing.

As seen above, in Dillon this Court relied upon Tennessee Power Co. v. TVA, supra. As the Supreme Court recently pointed out in Hardin v. Kentucky Utilities Co., supra, 390 U.S. at 5-6, and as appellees acknowledge (Appellees' Brief, p. 67), Tennessee Power was a case involving "lawful competition". Yet the allegations in that case respecting TVA competition with private power companies were essentially the same as appellees' allegations in the present case. Specifically, it was alleged in Tennessee Power that the entire TVA Act (under the authorization of which TVA was engaged in competition with the power companies) was unconstitutional and that the power companies had "the right to be free from illegal competition." 306 U.S. at 124. The



Supreme Court rejected this theory of standing (id. at 140; emphasis added):

If the thesis were sound, appellants could enjoin a competing corporation or agency on the ground that its injurious competition is ultra vires, that there is a defect in the grant of powers to it, or that the means of competition were acquired by some violation of the Constitution. The contention is foreclosed by prior decisions that the damage consequent on competition, otherwise lawful, is in such circumstances damnum absque injuria, and will not support a cause of action or a right to sue.

Applying these teachings to the present case, appellees' assertions do not establish that the competition by Citibank is anything but "otherwise lawful"; specifically, they do not -- and cannot -- argue that only they have the right to engage in this type of business. They merely assert, as did the plaintiffs in Tennessee Power, that "there is a defect in the grant of powers" to Citibank, i.e., that the Comptroller's regulations violate an act of Congress. Thus, this argument is in all respects identical to the argument rejected by the Supreme Court in Tennessee Power.

To the same effect is Railroad Co. v. Ellerman, 105 U.S. 166 (1881). There, the competition was alleged to be "illegal" since it violated the defendant railroad's charter; in the alternative, the regulation allowing the competition was alleged to be unconstitutional. Id. at 170, 173. The Supreme Court held that the plaintiff had no standing (id. at 173-174; emphasis added):

The sole remaining question then, is, whether Ellerman \* \* \* has any legal interest which

entitles him to enjoin the company from using its wharf as a public wharf beyond the limits of such use, as defined by that construction of the joint resolution. If he has such interest, it can only consist in preventing competition with himself as a wharfinger, which such more extensive use of the railroad property would create. And if the right to assert it exists, it must rest \* \* \* on the allegation merely that such use is beyond the corporate powers of the company. \* \* \* The damage is attributable to the competition, and to that alone. But the competition is not illegal. It is not unlawful for anyone to compete with the company [sic -- should be appellee], although the \* \* \* company may not be authorized to engage in the same business. The legal interest which qualifies a complainant other than the State itself to sue in such a case is a pecuniary interest in preventing the defendant from doing an act where the injury alleged flows from its quality and character as a breach of some legal or equitable duty. A stockholder of the company has such an interest \* \* \*. The State has a legal interest in preventing the usurpation and perversion of its franchises, because it is a trustee of its powers for uses strictly public. In these questions the appellee has no interest, and he cannot raise them in order, under that cover, to create and protect a monopoly which the law does not give him. The only injury of which he can be heard in a judicial tribunal to complain is the invasion of some legal or equitable right. If he asserts that the competition of the railroad company damages him, the answer is, that it does not abridge or impair any such right. If he alleges that the railroad company is acting beyond the warrant of law, the answer is, that a violation of its charter does not of itself injuriously affect any of his rights. The company is not shown to owe him any duty which it has not performed.

See also Rural Electrification Administration v. Central Louisiana Electric Co., 354 F.2d 859, 862-865, certiorari

denied, 385 U.S. 815 (1966).

If there were any room for doubt about the continuing validity of Ellerman, Tennessee Power, Dillon, and other similar cases, it was dispelled by the Supreme Court last Term in Hardin v. Kentucky Utilities Co., supra, 390 U.S. 1 (1968). In Hardin, the plaintiff power company contended that TVA's sale of power in a particular geographical area was specifically prohibited by Section 15d of the TVA Act. Id. at 2-5. That contention, it should be noted, exactly parallels the contention in this case that the competitive activity of national banks is prohibited by the Glass-Steagall Act. The Supreme Court, however, did not accept the theory that, since TVA's activity was allegedly barred by statute, the resulting competition was unlawful, giving plaintiff standing. In fact, the Court restated the "'long established rule' that an injured competitor cannot sue to enforce statutory requirements not designed to protect competitors." Id. at 7, n.7 (emphasis added). Furthermore, citing Tennessee Power and Ellerman, supra, cases clearly involving competitive activity alleged to be unlawful, the Court declared that "the economic competition which results from lawful competition cannot, in and of itself, confer standing on the injured business to question the legality of any aspect of its competitor's business." Id. at 5-6 (emphasis added). With these contentions disposed of, the sole inquiry made by the Court was whether plaintiff had standing because Section 15d of the TVA Act was primarily designed to protect plaintiff and other private utility companies from TVA

competition -- i.e., whether the statute created a legal right to be free from TVA competition. See Part I(B), infra, on this aspect of the instant case.

In sum, appellees' distinction between lawful and unlawful competition does not help their standing argument, since this case can only be characterized as one involving lawful competition as to the plaintiffs involved. The only cases supporting appellees' reasoning are Camp v. Georgia Ass'n of Independent Ins. Agents, Inc., \_\_\_ F.2d \_\_\_ (C.A. 5, Nos. 25,050 and 25,060, decided August 12, 1968), petition for rehearing pending, and Baker, Watts & Co. v. Saxon, 261 F. Supp. 247 (D.D.C. 1966), affirmed on other grounds sub nom. Port of New York Authority v. Baker, Watts & Co., \_\_\_ U.S. App. D.C. \_\_\_, 292 F.2d 497 (1968). <sup>3/</sup> In addition to the decisions of this Court and of the Supreme Court rejecting appellees' reasoning, three district courts have recently accepted the Comptroller's position. Association of Data Processing Service Organizations, Inc. v. Camp, 279 F. Supp. 675 (D. Minn. 1968), appeal pending, C.A. 8, No. 19,218; The Wingate Corp. v. Industrial National Bank, D.R.I., Civil Action No. 3847, decided July 25, 1968, appeal pending, C.A. 1, No. 7186; Arnold Tours, Inc. v. Camp, D. Mass., Civil Action No. 67-372-C, decided July 11, 1968, appeal pending, C.A. 1, No. \_\_\_\_\_. Data

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<sup>3/</sup> Baker, Watts was not appealed by the government in view of the internal disagreement between government agencies as to the merits of the controversy.

Processing and Wingate hold that data processing companies have no standing to attack competition by national banks undertaken pursuant to an allegedly illegal authorization by the Comptroller. Arnold Tours reaches the same result where plaintiffs are travel agents attacking competition by national banks.

None of appellees' other cases support its position in any way. Frost v. Corporation Comm'n, 278 U.S. 515 (1929), merely held that the plaintiff, which possessed a certificate of public convenience and necessity, held a valuable "property right" protected under state law, which entitled it to challenge the issuance of a certificate to a potential competitor. Moreover, Frost was limited by the Supreme Court in Tennessee Power, supra, 306 U.S. at 143, to cases involving standing to challenge discriminatory state regulatory action. Accord, Alabama Power Co. v. Ickes, 302 U.S. 464, 484-485 (1938). Similarly, the branch-banking and bank-charter cases, and other cases involving charters or franchises, <sup>4/</sup> are not in point. As we demonstrated above, these cases do involve "unlawful competition," in that the plaintiffs in these cases could point to some right

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<sup>4/</sup> E.g., Whitney National Bank v. Bank of New Orleans & Trust Co., 116 U.S. App. D.C. 285, 323 F.2d 290 (1963), reversed on other grounds, 379 U.S. 411 (1965); Webster Groves Trust Co. v. Saxon, 370 F.2d 381 (C.A. 8, 1966); Nuesse v. Camp, U.S. App. D.C. 385 F.2d 694 (1967); Chicago v. Atchison, T. & S.F.R. Co., 357 U.S. 77 (1958).

to be free of competition, either by contract, statute, license etc. See discussion in Pennsylvania Railroad Co. v. Dillon, supra, 118 U.S. App. D.C. at 262, n. 6, 335 F. 2d at 297, n. 6; Rural Electrification Administration v. Central Louisiana Electric Co., supra, 354 F. 2d at 863-864. Finally, cases such as FCC v. Sanders Bros. Radio Station, 309 U.S. 470 (1940), and American Trucking Ass'ns v. United States, 364 U.S. 1 (1960), are inapposite, since Congress has not seen fit to enact a "person aggrieved" statute in this area. See our Main Brief, pp. 23-24.

For the above reasons, appellees cannot base their standing claim on the theory that they are being subjected to "unlawful competition." We now turn to the other grounds for standing raised in appellees' brief.

B. Appellees Cannot Claim A Statutory Right To Be Free From Competition By National Banks, Since They Have Not Shown That The Primary Purpose Of The Glass-Steagall Act Was To Protect Them From Such Competition.

As we demonstrated in our Main Brief (pp. 25-27), a plaintiff may obtain standing to attack activity said to violate a statute if that statute has, as its "primary objective," the purpose of protecting the plaintiff or the class to which he belongs from competition. Hardin v. Kentucky Utilities Co., supra, 390 U.S. at 6-7. Appellees recognize this rule in their brief (pp. 77-78), and assert that "even under the Hardin stan-



dard" they should be found to have standing here.<sup>5/</sup> But, in support of this assertion, they cite only the opinion of the court below. They point to nothing in the Glass-Steagall Act itself or in its legislative history which gives the slightest indication that Congress had any intention of protecting them or the class to which they belong in passing the Act (12 U.S.C. 92a is not cited by appellees in this context). Moreover, they fail to mention the legislative history cited at pages 26-27 of our Main Brief, which demonstrates quite clearly that the intentions of Congress were far removed from any such designs.

In failing to show any statutory right to be free from competition, appellees have thus removed themselves entirely from the rationale of Hardin. And, as we have already shown above, they have pointed to no other right to be free from competition which might make the activities of Citibank "unlawful" as to them or the class to which they belong. The only other ground upon which they seriously claim to have standing to attack the Comptroller's ruling is under the Administrative Procedure Act. As we now show, this argument is totally without merit.

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5/ Appellees' attempts to broaden the Hardin rule elsewhere in their brief are frivolous. For example, at one point they assert (without citation from Hardin) that the statute need only have the effect of preventing competition, regardless of the legislative intent, to give a plaintiff standing to attack it (Appellees' Brief, p. 73). Of course, this reading of Hardin allows every statute alleged to be violated to be invoked as a ground for standing, since the effect of the statute (as read by the plaintiff) is always to prevent the potential competitor from competing.

Appellees also cite Chicago v. Atchison, T. & S.F.R. Co., 357 U.S. 77 (1958), for the proposition that Hardin does not really require any showing of legislative intent at all (Appellees' Brief, (footnote continued on p. 14))

C. There Is No Independent Ground For  
Standing Under The Administrative  
Procedure Act.

Appellees assert as an independent ground for standing Section 10 of the Administrative Procedure Act, 5 U.S.C. 702 (Supp. III, 1965-1967) (Appellees' Brief, pp. 79-83). While they acknowledge that this provision requires a "legal wrong," they do not point out how they meet this requirement. We have already shown that this case does not involve the invasion of any contractual, property or statutory right on the part of appellees to be free of competition from national banks. Moreover, appellees do not claim the benefit of a "person aggrieved" statute as an aid to standing, as do most of the plaintiffs in the cases cited in this section of their brief (Appellees' Brief, p. 81). See our Main Brief, pp. 23-24. Therefore, appellees do not in any concrete way show how they even come within the literal language of Section 10.

The theoretical discussions set out in this section of appellees' brief ignore two square holdings of this Court which are contrary to their position. In Kansas City Power & Light Co. v. McKay, 96 U.S. App. D.C. 273, 280-281, 225 F. 2d 924, 931-932, certiorari denied, 350 U.S. 884 (1955), certain utility companies attacking a federally supported power program attempted to base their standing to sue upon Section 10 of the APA. This

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(5/ continued) pp. 76-77). They neglect to point out, however, that the Chicago case involved a plaintiff who possessed a license and who was able to invoke a city ordinance, which together conferred upon it "the right to be free from unlawful competition." 357 U.S. at 83.

Court rejected their claim, citing with approval the view set out in the Attorney General's Manual on the Administrative Procedure Act to the effect that that Act provided no new basis for standing. Of course, if appellees possess an "old" basis for their standing claim, they are hardly in need of the Administrative Procedure Act.

More recently, in Pennsylvania Railroad Co. v. Dillon, supra, this Court again rejected a similar claim. 118 U.S. App. D.C. at 259-260, 335 F. 2d at 294-295. Appellees are plainly in no better position in the instant case, and therefore cannot predicate a standing claim on the provisions of the Administrative Procedure Act.<sup>6/</sup>

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In sum, none of the grounds asserted by appellees to give them standing to attack the Comptroller's regulations has merit.

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6/ Appellees also urge briefly that they should have the right to bring this action on the ground that no one else can or will attack these regulations if they are not permitted to do so (Appellees' Brief, p. 79). If this were true, none of the cases denying standing were correctly decided, with the possible exception of Pennsylvania Railroad Co. v. Dillon, supra, since, in each of them, the plaintiffs involved were also the only potential challengers of the allegedly illegal competition.

In the standing portion of their brief, appellees state that Congress keeps its financial assistance programs "under periodic supervision" (Appellees' Brief, pp 67-68, n. 61), thus implying that the Comptroller's regulatory functions are generally ignored by the legislature and should be more carefully scrutinized by the courts. However, in their discussion of the merits, appellees cite the pending legislation involving the problems now before this Court, noting "the continuing oversight that Congress maintains over the banking laws" and that "the Congressional forum is readily available" in this area (Appellees' Brief, p. 51). Thus, it should be apparent that the acceptance of the Comptroller's position on the standing issue in no way subjects the financial world to the unchecked power of the Executive Branch of government.

They have failed to show that the competition provided by Citibank was in any way "unlawful" as to them, since they have shown no contractual, property, statutory or other right to be free from competition from national banks. They have not demonstrated any legislative purpose behind the Glass-Steagall Act to protect the mutual fund industry from competition by national banks. They have given no other valid ground for their standing to attack the Comptroller's regulations. Their action should therefore have been dismissed for want of standing.

II. THE COMPTROLLER'S ACTION WAS WITHIN  
HIS STATUTORY POWERS AND IN ACCORDANCE  
WITH THE APPLICABLE LAW.

As we have shown, nothing in appellees' brief establishes any basis for their standing to maintain this action. Assuming that the Court nevertheless reaches the merits of the controversy, we now show that appellees have not demonstrated that the Comptroller exceeded his authority under 12 U.S.C. 92a, or that any provisions of the Glass-Steagall Act have been violated.

A. The Commingled Account of Citibank  
Approved by the Comptroller is  
Authorized by 12 U.S.C. 92a.

12 U.S.C. 92a establishes two simple tests by which to determine the Comptroller's authority to permit a national bank to operate a commingled managing agency account. Those tests are (1) whether the bank is acting in a "fiduciary capacity," and (2) whether, if so, it is one "in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the

laws of the state in which the national bank is located."

As demonstrated in our Main Brief (pp. 29-35), the mingled managing agency account approved by the Comptroller meets both of these requirements. Nothing in appellees' brief militates against that conclusion. Indeed, that brief does not focus on the two statutory tests but instead emphasizes a statement to a Congressional Committee which ICI had solicited,<sup>7/</sup> quotes from a mock debate staged for a conference of bank trust officers,<sup>8/</sup> and relies upon an entirely irrelevant tax statute.<sup>9/</sup>

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<sup>7/</sup> Appellees' Brief, pp. 59-60. Mr. Rostow's statement was prepared by him specifically at the request of appellee ICI, and was introduced into the hearing record by the president of two mutual funds, who was testifying on behalf of ICI. See Hearings on S. 2704 Before a Subcommittee of the Senate Committee on Banking and Currency, 89th Cong., 2d Sess., pp. 63, 73, 78 (1966) (hereafter "1966 Hearings").

<sup>8/</sup> Appellees' Brief, p. 60. The statement of "one distinguished banker" quoted by appellees is cited "1963 Hearings, p. 127." An examination of pages 121 and 122 of those same hearings (Hearings on Common Trust Funds -- Overlapping Responsibility and Conflict in Regulations, Before the Legal and Monetary Affairs Subcommittee of the House Government Operations Committee, 88th Cong., 1st Sess. (1963)) shows that the quotation was part of a discussion in "the format of a debate" at the Forty-third Midwinter Trust Conference in 1962. These remarks were introduced, in part, by the following statement:

In identifying themselves with the side of the argument assigned to each one, I don't think you need assume that this is the final stand each one will take forevermore. Rather, they are good soldiers who responded to the call and agreed to concentrate their thoughts on the side assigned to them. In this presentation this morning, we hope to stimulate your thinking; to raise questions in your mind for you to take home and discuss with your associates.

<sup>9/</sup> Appellees' Brief, pp. 56-57. It is not suprising that the status of managing agent was "pointedly omitted" from the exemptions granted by Section 548 of the Internal Revenue Code, cited by appellees. No such exemption was necessary because there is no double taxation on income obtained by an agent for his principals.



Specifically, appellees have no answer to the following:

1. National banks have operated managing agency accounts as fiduciary activities since at least 1930 and are specifically authorized by Section 16 of the Glass-Steagall Act, 12 U.S.C. 24, Seventh, to purchase and sell "securities and stocks without recourse, solely upon order and for the account of customers \* \* \*. <sup>10/</sup>

2. The Federal Reserve Board and the Comptroller of the Currency have consistently taken the position that a national bank may enter into a managing agency agreement under its fiduciary powers if the bank has applied for and received such powers under 12 U.S.C. 92a (J.A. 214). <sup>11/</sup>

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<sup>10/</sup> See our Main Brief, pp. 32-33; 1934 Fed. Reserve Bull. 609.

<sup>11/</sup> It is irrelevant whether a national bank can operate as a collection agent, an insurance agent, or some other sort of agent under the authority of some other part of the National Bank Act (Appellees' Brief, p. 53). For, in any event, a national bank may operate as a managing agent in a fiduciary capacity under 12 U.S.C. 92a -- and this statute and its predecessor (former 12 U.S.C. 248(k)) have been so construed and so applied for at least 30 years. See also, on the fiduciary nature of a managing agency relationship, I Scott on Trusts (3rd ed.), §8.1, pp. 80-81; Restatement of Agency 2d, §14B, §423 comment a, §425 comment a. (Professor Scott was a consultant to the Comptroller's Office in the drafting of Regulation 9. See 42 Trust Bulletin No. 6, p. 10 (1963)). Compare also the fiduciary capacity of an "assignee," specifically mentioned in 12 U.S.C. 92a. Judge Miller also referred in his opinion (now vacated) in NASD v. SEC, C.A.D.C., No. 20, 164, to a bank's managing agency as a "fiduciary account."



3. The Federal Reserve Board, while supervising the fiduciary activities of national banks under former 12 U.S.C. 248(k), twice changed its regulations<sup>12/</sup> to permit banks to commingle types of fiduciary funds which, as a policy matter, the Board had previously required banks to administer separately. Such commingling did not affect the fiduciary power of the banks to administer such funds, just as the commingling of the funds of several principals of an agent, in accordance with express direction, does not alter the fiduciary nature of the agency. Brown v. Christman, 75 U.S. App. D.C. 203, 126 F. 2d 625 (1942).<sup>13/</sup>

4. When the fiduciary regulatory functions were transferred from the Federal Reserve Board to the Comptroller in 1962, the Board was considering the authorization of commingled

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<sup>12/</sup> See 1937 Fed. Reserve Bull. 392, authorizing the commingling of trust funds, and 20 F.R. 3305 (1955), authorizing the commingling of pension, profit-sharing, or stock bonus plan funds. Appellees are thus patently in error in stating: "The Board's prohibition against collective investment of funds received or held as fiduciary was unswerving between 1915 and 1962." (Appellees' Brief, p. 55.)

<sup>13/</sup> It is of course true, as pointed out on page 55 of appellees' brief, that as to common trust funds the Federal Reserve Board as a policy matter ruled that the

trust guise or form should not be used to enable a trust institution to operate a Common Trust Fund as an investment trust attracting money seeking investment alone and to embark upon what would be in effect the sale of participations in a Common Trust Fund to the public as investments.

No such limitation, however, was contained in the Board's 1956 authorization to commingle pension, profit-sharing, or stock bonus plan funds, which, like managing agency funds, are often "money seeking investment alone." The motive of the bank customers does not affect the fiduciary nature of the funds under 12 U.S.C. 92a.

managing agency accounts. The Board (before the transfer) and the Comptroller (after the transfer) had authority under the statute<sup>14/</sup> to determine that the commingling of managing agency funds constituted a "proper exercise" by a national bank of its fiduciary powers. American Trucking Ass'ns, Inc. v. Atchison, T. & S.F.R. Co., 389 U.S. 397, 416 (1967).

6. Under Section 100 of the New York Banking Law, state banks or trust companies "are permitted to act" as managing agents under instruments expressly authorizing the commingling of funds.<sup>15/</sup> This statute has always been interpreted to authorize the commingling by express direction of fiduciary funds,<sup>16/</sup> and it is irrelevant that the interpretation of this statute inherently involved in the Comptroller's approval of Citibank's account preceded the New York Banking Department's latest formal determination that a commingled managing agency account may be established "in the exercise of fiduciary powers conferred upon New York trust companies by Section 100 of the Banking Law \* \* \*." <sup>17/</sup>

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<sup>14/</sup> Now 12 U.S.C. 92a(j). The Comptroller's regulations under this statute specifically define "fiduciary" to include "managing agent." This definition is "within the bounds of reasonableness," Udall v. Oelschlaeger, \_\_\_ U.S. App. D.C. \_\_\_, 389 F. 2d 974, 976 (1968), and is to be accorded great weight by the Court. Unemployment Comm'n v. Aragon, 329 U.S. 143 (1946).

<sup>15/</sup> See our Main Brief, pp. 34-35. Appellees make no response to this argument, and, indeed, their brief never cites or mentions in any way the New York banking statutes.

<sup>16/</sup> Brooklyn Trust Co. v. Corwin, 5 F. Supp. 287 (E.D.N.Y., 1933); see also Restatement of Trusts 2d, §179, comment f; III Scott on Trusts (3rd ed.), §227.9.

<sup>17/</sup> See our Main Brief, Appendix B, p. B3. Appellees have now abandoned the reasoning which they persuaded the district court to adopt, and contend instead -- without any support whatsoever -- that the phrase "are permitted to act" in 12 U.S.C. 92a(a) should be read to mean "are engaged" (Appellees' Brief, pp. 60-62).

As we have shown, appellees' brief in no way detracts from our position that the Comptroller's action in authorizing Citibank to operate a commingled managing agency account was fully within his statutory authority under 12 U.S.C. 92a. The district court was therefore wrong in concluding "that the managing agency relationship does not fall within the traditional fiduciary powers as delineated in 12 U.S.C. 92a(a)" (J.A. 257), and "that the commingling of managing agency accounts is not authorized under \* \* \* the New York banking laws" (J.A. 258). Moreover, as we will now show, the provisions of the Glass-Steagall Act neither invalidate the Comptroller's action nor prohibit the operation of the account.

B. Citibank's Commingled Account Does Not Violate the Provisions of the Glass-Steagall Act.

1. Since the commingled account is plainly a permissible extension of traditional fiduciary services offered to customers, the only remaining question is whether the account is forbidden by any of the provisions of the Glass-Steagall Act -- more specifically, Sections 16, 20, 21, and 32 of that Act, 12 U.S.C. 24, Seventh, 377, 378, and 78. The answer is clearly in the negative. Contrary to appellees' insistence, the bank's "unit of participation" is simply not a "security" within the meaning of the Glass-Steagall Act.

a. As we demonstrated in our Main Brief (pp. 41-46), both common sense and the relevant legislative history require the conclusion that the term "securities" as used in Glass-Steagall Act has a different meaning from the term "security" as defined

in the Securities Act of 1933, 15 U.S.C. 77(b). Thus, appellees position is scarcely enhanced by their reliance (Appellees' Brief, p. 28) upon the statement of the Chairman of the SEC to the effect that a unit of participation "is essentially a security." It is obvious that the Chairman was speaking in the context of the Securities Act, and not the Glass-Steagall Act.

b. It is important to note that the question of "securities" entered this case only because of the technical requirements imposed upon the bank by the SEC in order to give the participants in the fund additional protection under the Investment Company Act of 1940. As stated by the bank in its brief to the SEC (1966 Hearings, p. 22):

The Bank has been required to comply with the structural norm of the 1940 Act by creating a "shell," in the form of the Committee, and by having the Committee enter into a management agreement with the Bank as investment adviser for the Commingled Account, and without doubt this structure affords the participants certain protections.

Indeed, the National Association of Securities Dealers (NASD) -- of which appellees are members -- quite candidly admitted to the SEC (1966 Hearings, p. 294):

The committee is simply a formality to give the semblance of statutory compliance [with the Investment Company Act].

Had this "formality" or "shell" not been required, there would be no basis whatsoever for appellees to argue that the bank was anything but a "single entity;" and all questions of

"securities" and of "issuing, underwriting, distributing, selling, or dealing in" securities would vanish. <sup>18/</sup>

The basic, incontrovertible fact here which appellees persist in ignoring is that the bank, under the Comptroller's regulation and ruling, is merely selling the same thing that all banks sell--

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<sup>18/</sup> Appellees' present claim that the bank is affiliated with its commingled account in violation of Section 32 of the Glass-Steagall Act is totally inconsistent with the position taken by NASD before the SEC (1966 Hearings, p. 293, 294; footnote omitted):

The Committee dominated by the bank and responsive to the Bank's will is a mere figurehead. The Bank will determine the fund's destiny, and its board, not the committee, will effectively be entrusted with the directorial functions of the fund.

The formal ruling of the Federal Reserve Board on Citibank's exemption application, 12 C.F.R. 218.111, concluded merely that "the bank and account constitute a single entity for the purposes of section 32 \* \* \*." This ruling is consistent with the Board's conclusions regarding the functionally identical "common trust fund, \* \* \* pooled fund under so-called H.R. 10, or other pooled funds involving employee pension or profit-sharing trusts, all of which are established banking operations." 1966 Hearings, p. 586. The Board itself did not find it necessary, therefore, to consider whether the units of participation were "securities" within the meaning of the Glass-Steagall Act. A memorandum, prepared by the Board's staff and quoted at page 29 of appellees' brief, noted that the term "securities" as used in the Glass-Steagall Act was less comprehensive than the definition contained in the securities law. 1966 Hearings, p. 583. The staff noted, however, that the Board's previous rulings concerning bank affiliations with true double entities such as outside mutual funds "would seem to warrant \* \* \*" a conclusion that the units are securities under Section 32. Such a conclusion was not contained in the Board's formal ruling and is contrary to the position which appellees had consistently taken before this suit was filed. See 1966 Hearings, pp. 227-228.



its financial services and experience. If these identical services were sold to one customer, there could be no question of their legality. Similarly, appellees cannot seriously suggest that, if these services were sold to a number of customers in a commingled trust fund in strict accordance with the Comptroller's regulation (12 C.F.R. 9), the Glass-Steagall Act would be violated. Appellees argue, however, that the imposition of a structure designed solely to add the protections of SEC surveillance to those offered by the Comptroller make the account "a separate entity," and thus make this an offer by the bank of services to be performed by the separate entity rendering the Comptroller's approval of the account unlawful. If appellees were correct in their assumption that the account is a "separate entity," their theory might have merit. The Glass-Steagall Act is plainly designed to prohibit banks from dealing in "securities," that is, in claims upon the services of other parties or evidences of ownership of other parties. The Glass-Steagall Act does not and could not, however, prohibit a bank from offering its own services as investment manager. Nor is there the slightest evidence in the extensive legislative history that it was intended to do so.

The only thing for which the bank is paid here is its own financial services. The bank invests the money committed to it as managing agent at its own discretion. It has the sole responsibility for the management of the portfolio purchased with that money. For these services it is paid just as it would be for the same services performed for a single customer. And, just as a single customer could withdraw at any time from the agency



relationship, so can a customer whose money is invested in the commingled account. The additional safeguards established to satisfy the SEC provide for a committee which is entitled to review the action taken by the bank as agent. The majority of the committee has been and is now controlled by the bank. At the end of a year, the bank might be discharged by the Committee or the participants in the account might vote to discharge the bank, ending the agency relationship. Thus, just as a trust officer could resign his post, ending his relationship with the bank and with the customers, the account could conceivably end its relationship with the bank. In either case, the bank could no longer, under the Glass-Steagall Act, offer the services of the account or of the officer. But, in either case, so long as the officer and the account are controlled by the bank, it can properly offer their services. So long as the account is controlled by the bank, the bank is merely offering the services of its trust department to its customers, and not the "securities" which the Glass-Steagall Act forbids.

2. Appellees' arguments with respect to the history of the Glass-Steagall Act have no greater merit. Appellees themselves point out the specific ills which were to be remedied (Appellees' Brief, p. 46):

Congress discovered that the incestuous relationship of commercial banking and investment banking in the 1920's had adversely affected commercial banks and the economy in general. Bankers who had securities interests betrayed their fiduciary responsibilities as bankers; depositors seeking investment advice were sold securities on

which the banks stood to gain; credit decisions were affected by the bankers' interest in nurturing their securities operations.<sup>19/</sup>

None of these abuses is present in this case.

The short of the matter is that there is nothing, either in the material cited by appellees or elsewhere, showing that the Glass-Steagall Act was intended in any way to restrict banks from advising their customers with respect to investments when the bank's only possible gain from such advice -- clearly disclosed -- is the advisor's fee. On the contrary, as the responsible agencies have found, the activities of the bank in managing the account are specifically authorized to banks under Section 16 of the Act, which allows "purchasing and selling such securities and stock without recourse, solely upon the

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<sup>19/</sup> This is consistent with the position previously -- and correctly -- taken by NASD, of which appellees are members (see 1966 Hearings, p. 196), that the Glass-Steagall Act provided for "the divorcement of commercial banking from investment banking." See also the testimony of the ICI representatives, *id.* at 99-100. In fact, the only examples appellees can find of the Act ever having been applied to prohibit something other than investment banking activities by commercial banks are six opinions by the Federal Reserve Board applying Section 32 of the Glass-Steagall Act to prohibit interlocking relations between banks and certain outside non-bank enterprises (Appellees' Brief, p. 44). These opinions have no relevance here, however, because in each cited instance the Board was dealing with true double entities, whereas it found a single entity in Citibank's account. In addition, banks already act as investment advisors to mutual funds, e.g., 12 C.F.R. 218.17(f), and the Board has recently allowed interlocks under Section 32 between commercial banks and certain mutual fund-insurance complexes. 33 F.R. 13001, 12 C.F.R. 218.113 (September 14, 1968). If appellees' argument is that the Board's specific exemption of Citibank's account was inconsistent with these rulings, their action is against the wrong party; the Comptroller has simply accepted that ruling, and has no statutory authority to alter or amend it.

order, and for the account of, customers, and in no case for its own account \* \* \*." 12 U.S.C. 24, Seventh.

Similarly, appellees refer to "the Congressional purpose of assuring disinterested investment advice expressly in the applicable sections of Glass-Steagall \* \* \* " (Appellees' Brief, p. 47). But since, as noted in our Main Brief, the bank may not participate in the account (12 C.F.R. 9.18), or sell the account its own securities (12 C.F.R. 9.12), and the account may not lend or borrow money or invest its funds in stock or obligations of the bank (12 C.F.R. 9.12), it is clear that Citibank "sells" only and precisely "disinterested investment advice."<sup>20/</sup>

3. We stress again that appellees fail to take into account that the commingled fund offers exactly the same services to the customer with a smaller amount to invest as banks have traditionally offered the large investor. Appellees assert that such a characterization "grossly mischaracterizes the

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<sup>20/</sup> The Federal Reserve Board noted (1966 Hearings, p. 586):

Indeed, a main evil in this context at which section 32 is directed -- the opportunity for the exercise of influence on investments of a bank's customers by individuals connected with both the bank and a securities house who stand to gain because of their undisclosed or not readily apparent link with the source of the securities to be sold -- cannot exist in the present case, where Account, being essentially an operation of First would be plainly known to customers of the bank for what it is.

speculative nature" of the commingled account (Appellees' Brief, p. 4; see also pp. 10-11). That assertion is footless; it demonstrates an ignorance of the services traditionally offered by banks with fiduciary powers under managing agency accounts. Those accounts may be as speculative as the principal desires. The only difference between those accounts and the commingled account is that the traditional managing agency account is not available to those with less than \$200,000 to be managed. Appellees do not and could not contend that such managing agency accounts are tainted with illegality.<sup>21/</sup>

4. Appellees spend many pages comparing Citibank's commingled account to a mutual fund.<sup>22/</sup> It is not surprising that

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<sup>21/</sup> It may also be that appellees are not concerned with these factors, knowing that customers with enough money to take advantage of the standard managing agency account are unlikely to rely upon appellees' products. See 1966 Hearings, p. 113.

<sup>22/</sup> The term "mutual fund" itself is often misleading, not only because it involves open-end and closed-end companies and "load" and "no-load" funds, but also because the term is not differentiated by appellees from other terms found in their brief, such as "investment securities business," "securities affiliates," "investment bankers," "investment trusts," and "investment advisor" -- each of which has its own peculiar meaning in the 1933 legislative history. Of all these denizens of the securities world, the activities of Citibank's fund most closely resemble those of "investment counselors," a term not mentioned in appellees' brief. See 1966 Hearings, pp. 65-66, 137, 239-241, 243. Such investment counselors, according to ICI's brief before the Securities and Exchange Commission, "organize investment trusts so that they can make available \* \* \* to people who cannot afford to take their personalized investment services, the same type of services in an investment company. These investment companies are really an adjunct of the investment advisory business." 1966 Hearings, pp. 270-271. Such investment counseling trusts or companies, like Citibank's fund, do not charge sales loads, and they are partially exempted from the directors affiliation prohibitions of Section 10 of the Investment Company Act, 15 U.S.C. 80a-10. A most clear and precise discussion of the relationship of each of these various enterprises to the Glass-Steagall Act prohibitions is found in Citibank's reply brief to the SEC, 1966 Hearings, pp. 482-499.

mutual funds bear much resemblance to managing agency accounts, both traditional and commingled. In fact, mutual funds were originated in order to obtain for the smaller investor the same sort of services which bankers and other investment experts had traditionally offered large investors. Cf. I Loss, Securities Regulation (2d ed.), p. 144.

Appellees seem to argue that, because a commingled account resembles a mutual fund, it is illegal. (See, e.g., Appellees' Brief, pp. 8-11, 14-16, 20-25). The reasons they assign for this alleged result (id. at 45-50), however, are wholly without merit. So long as the bank receives no profit from inducing its customers to commit their money to the account, the possible conflict of interest involved is exactly that which Congress long ago declared allowable by permitting trust operations; no more, no less. Thus, appellees suggest (Appellees' Brief, p. 47) that the bank receives a management fee from the account; but the bank receives a similar management fee for a managing agency account, a trust account or any of the other myriad fiduciary services it performs. Appellees suggest (id. at 48) that because a commingled account will have continuing redemptions, there will be pressures on the banks to "steer their customers to the Bank fund;" but the bank's trust department income will be dependent upon the total size of its trust operations and trusts and managing agencies are continually expiring by their terms or by law. No one has suggested that this creates any improper pressures on banks to "steer their customers" to the services of their trust departments, yet the pressures are



identical. Appellees finally suggest (id. at 49-50) that a bank, in its creditor role, might "support a lagging corporation in which the bank's investment fund has a substantial equity position" because of the bank's interest in the performance of its commingled account; but the pressure to "support a lagging corporation" would be equal if a trust fund or a managing agency account had a substantial equity position in the corporation. In short, these examples of possible conflicts of interest set forth by appellees ignore the realities of perfectly proper trust department operations of banks, and lack relevance in light of the purpose of the Glass-Steagall Act, as set out above (Part II(B)(2), supra; see Appellees' Brief, p. 46).

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In sum, appellees have not demonstrated a basis for their standing to bring this action, since they have failed to show a legally protected right to be free of competition from national banks. In any event, they are unable to substantiate their allegations that the Comptroller's action in authorizing Citibank's commingled account violated 12 U.S.C. 92a or Sections 16, 20, 21 or 32 of the Glass-Steagall Act. The decision below was therefore erroneous.



CONCLUSION

For the foregoing reasons, together with those set forth in our main brief, the decision below should be reversed.

Respectfully submitted,

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OCTOBER , 1968



IN THE UNITED STATES COURT OF APPEALS  
FOR THE DISTRICT OF COLUMBIA CIRCUIT

FIRST NATIONAL CITY BANK,

Appellant,

v.

INVESTMENT COMPANY INSTITUTE,  
et al.

Appellees,

and

WILLIAM B. CAMP, Comptroller of the  
Currency,

Appellant,

v.

INVESTMENT COMPANY INSTITUTE,  
et al.

Appellees.

No. 21661

United States Court of Appeals  
for the District of Columbia Circuit

FILED JUL 23 1969

*Nathan J. Paulson*  
CLERK

No. 21662

PETITION OF APPELLEES FOR REHEARING,  
WITH SUGGESTION FOR EN BANC CONSIDERATION

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PETITION OF APPELLEES FOR REHEARING,  
WITH SUGGESTION FOR EN BANC CONSIDERATION

A. INTRODUCTION

Appellees petition for rehearing of the above captioned matter, with the suggestion that rehearing be ordered en banc.<sup>1/</sup> As the discussion below indicates, not only has the panel misapprehended critical points of law (cf. Fed. R. App. P. 40(a)), but also these proceedings raise questions of exceptional importance so as to make en banc consideration appropriate (cf. Fed. R. App. P. 35(a)).

Appellees<sup>2/</sup> brought this action in the District Court to challenge the legality of certain regulations and rulings of Appellant Comptroller of the Currency which reversed decades of settled administrative rulings and authorized commercial banks for the first time to expand their traditional banking activities to enter the mutual fund business. The medium for this expansion into the securities business was to be the sale by banks of "units of

<sup>1/</sup> These appeals, Nos. 21,661 and 21,662, were consolidated for decision with National Association of Securities Dealers v. Securities and Exchange Commission, No. 21,164, in which the Court affirmed the order of the Securities and Exchange Commission.

<sup>2/</sup> Appellees include Investment Company Institute, an association of mutual funds and their investment advisers and principal underwriters, plus a number of Institute members who serve as investment advisers and principal underwriters of mutual funds.



participation" in "commingled investment accounts."<sup>3/</sup> As is recognized in Chief Judge Bazelon's opinion, commingled investment accounts are the functional equivalent of traditional mutual funds -- a classic form of securities activity.

Appellees' Complaint charged that the regulations of the Comptroller permitting bank entry into the mutual fund business violated four specific provisions of the Glass-Steagall Act<sup>4/</sup> which were designed to separate commercial banking from the securities business. Appellees also contended that the regulation authorized banks to engage in securities activities which were clearly outside the fiduciary activities permitted national banks by Section 92a of the National Banking Act.<sup>5/</sup>

The District Court, in an extensive and detailed opinion, held that the Comptroller's regulations permitting bank entry into the mutual fund business were beyond the Comptroller's statutory authority and in violation of the express prohibitions of the Glass-Steagall Act. 274 F. Supp. 624.

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<sup>3/</sup> The only commingled investment account authorized to date has been that of Appellant Intervenor First National City Bank, hereinafter referred to as the "Bank" and its "Account."

<sup>4/</sup> National Banking Act of 1933, §§ 16, 20, 21, 32, 48 Stat. 162 et seq. (1933), as amended, 12 U.S.C. §§ 24, 377, 378, 78 (1964).

<sup>5/</sup> Pub. L. No. 87-722, 76 Stat. 668 (1962), 12 U.S.C. § 922 (1964).

On July 1, 1969, in a per curiam opinion, a panel of the Court consisting of Chief Judge Bazelon and Judges Burger and Miller reversed the decision of the District Court. The opinion noted that a majority of the Court had reservations about Appellees' standing to sue, but that "these doubts have been resolved in favor of reaching the merits in cases of this consequence" (Slip Op., page 4). The per curiam opinion contained no discussion of the merits, but stated that the two concurring opinions set forth the basis of the Court's action.

In the opinion written by Judge Burger and concurred in by Judge Miller, virtually the entire discussion was devoted to an analysis and evaluation of the standing question. Judge Burger indicated his "grave doubts" as to Appellees standing, but concluded that Appellees had standing "in order to make a majority holding for review of the merits of a subject of such importance." The majority thought that "consideration of the merits . . . at our level may be useful to further judicial review." (Slip Op., page 36.)

However, the majority analysis of the merits was limited to a terse statement that several government agencies had given "careful and comprehensive study to all aspects of this problem"; that these agencies "with their accumulated expert experience have decided the issues" in question; and that the agency decisions are



"entitled to substantial deference and on this record I see no basis for disturbing their conclusions." (Slip Op., pages 47, 48.)

The majority thus treated the Appellees' Complaint as one challenging an agency's expertise and exercise of discretion. There was no discussion whatever of the Appellees' assertions, or the District Court's conclusions of law, that the controlling regulations exceeded the Comptroller's statutory authority and were in direct violation of the prohibitions of the Glass-Steagall Act.

Chief Judge Bazelon's opinion analyzed the standing issue at length and concluded that Appellees had standing. This opinion also discussed many of the issues raised by Appellees concerning the Glass-Steagall Act and the scope of permissible fiduciary activities within the limits of Section 92a. However, as we shall point out, his opinion misapprehended several critical issues of law. The majority did not join in Judge Bazelon's discussion of the merits of this appeal.

#### B. ARGUMENT

1. En banc Consideration is Appropriate Because of the Exceptional Importance of the Issues Raised in This Appeal.

This case unarguably is one of great significance. The Comptroller's regulations challenged here reversed decades of consistent prior administrative rulings to permit commercial banks,

for the first time since the Depression, to re-enter the speculative securities business. Indeed, Chief Judge Bazelon's opinion recognizes that the challenged activity is a clear departure from past practice and authorizes "a new and free-wheeling form of fiduciary activity." (Slip Op., page 10.)

There is no dispute as to the impact that bank operated mutual funds will have on the securities industry and the economy at large. Indeed, the Comptroller predicted that in the next decade commercial banks operating under these regulations "might capture as much as two billion dollars of mutual fund business."

(See Slip Op., page 47 n.10.) And Chief Judge Bazelon noted that:

"The major consequences of expanded investment service by banks will be a quantitative change in the volume of securities bought, sold, and held by banks. While substantial transactions in securities by banks may be essential for the modern management of their customers' money, an increase in their already massive securities holdings for the account of customers has some disquieting consequences for the underpinnings of corporate accountability and competition in the economy at large."  
(Slip Op., page 16.)

The entry of banks into the mutual fund business is the first breach in the wall of separation erected by the Glass-Steagall Act in 1933 between commercial banking and the securities business. In erecting that wall, Congress intended to prevent a recurrence of the economic distortion caused by the free-wheeling activity of banks with respect to their securities activities during the

period culminating in the Depression.<sup>6/</sup>

Although there was unanimous agreement by members of the panel as to the significance of the questions posed by this appeal, the merits received only limited and misdirected treatment, as we discuss below. This matter of exceptional importance requires en banc consideration.

2. The Majority Improperly Treated Appellees' Complaint as Challenging Administrative Expertise and Discretion.

In its brief discussion of the merits of the case, the majority held that the court's review function is

"narrow and limited; it does not include the power to decide whether the public will be better served by one or the other modes of investing funds so as to achieve diversification, yield, safety or low cost. All that is the primary responsibility of the special regulatory bodies established by Congress for that purpose." (Slip Op., page 47).

It should be emphasized that Appellees' Complaint did not raise these policy questions or debate the wisdom of commercial bank entry into the mutual fund business. Appellees charged that the regulations exceeded the Comptroller's statutory authority; they did not raise questions of abuse of discretion.

The standard of review applied by the majority is clearly inappropriate in cases challenging administrative action in excess

---

<sup>6/</sup> Indeed, this Court is not unfamiliar with attempts to breach Glass-Steagall prohibitions. A companion effort of the Comptroller to expand bank securities activity to include the sale of revenue bonds has been declared unlawful by this Court under the controlling provisions of the Glass-Steagall Act. Baker, Watts & Co. v. Saxon, 261 F. Supp. 247 (D.D.C. 1966), aff'd, sub. nom. Port of New York Authority v. Baker, Watts & Co., 129 U.S. App. D.C. 173, 392 F.2d 497 (1968).

of statutory authority.<sup>7/</sup> As the Supreme Court has stated:

"Administrative determinations must have a basis in law and must be within the granted authority. . . . An agency may not finally decide the limits of its statutory power. That is a judicial function."  
Social Security Board v. Nierotko, 327 U.S. 358, 369 (1946) (footnote omitted).

This Court has repeatedly decided cases raising questions whether administrative officials exceeded their statutory authority. In those cases, the Court has made its own judgment as to the limits of the statutory authority granted to the administrative official. Many of those cases have involved the Comptroller. Thus, this Court recently struck down a companion effort of the Comptroller to extend commercial banking activities into the securities business. Baker, Watts & Co. v. Saxon, *supra*, note 6. In that case the Comptroller had interpreted the term "general obligations" so as to permit national banks to underwrite and sell revenue bonds. The Court rejected the Comptroller's "expert" judgment in defining that term and held that the Comptroller's regulations squarely<sup>8/</sup> violated the applicable provisions of the Glass-Steagall Act.

<sup>7/</sup> See, NLRB v. Brown Food Store, 380 U.S. 278, 292 (1965); NLRB v. Insurance Agents' International Union, AFL-CIO, 361 U.S. 477, 499-500 (1960); Phillips Petroleum Co. v. Wisconsin, 347 U.S. 672, 677-78 (1954); Elgin, Joliet & Eastern Ry. v. Benj. Harris & Co., 245 F. Supp. 467, 472 (N.D. Ill. 1965).

<sup>8/</sup> Similarly, regulations of the Comptroller authorizing national banks to expand into the insurance business have been held unlawful. The reviewing courts have exercised their independent judgment as to the limits of the Comptroller's authority, holding that "as a matter of law, the ruling by the [Comptroller] was illegal and contrary to Title 12 U.S.C.A. § 92 . . . ." Georgia Ass'n of Independent Ins. Agents, Inc., v. Saxon, 268 F. Supp. 236, 238 (N.D. Ga. 1967), *aff'd*, 399 F.2d 1010 (5th Cir. 1968).

These conclusions are consistent with a long line of decisions in this Court involving contentions that the Comptroller acted beyond his statutory authority in granting branch bank applications. The Comptroller consistently asserted that his decisions were discretionary and that the scope of judicial review was limited. This approach has been consistently rejected. Thus, in Whitney National Bank v. Bank of New Orleans and Trust Company, 116 U.S. App. D.C. 285, 295, 323 F.2d 290, 300 (1963), rev'd on other grounds, 379 U.S. 411 (1965), this Court cited with approval the following language which clearly resolves the issue:

" . . . 'Defendant argues that the approval or disapproval of branches of national banks is a matter clearly committed to the discretion of the Comptroller. But there is no discretion of the Comptroller to approve the establishment of a branch office at a location prohibited by law. \* \* \* In the instant case, there is no desire to control the defendant's discretion \* \* \*. But, as mentioned above, there is no discretion to unlawfully issue a certificate. \* \* \*'"

Likewise, here the Comptroller has no discretion to authorize acts beyond his statutory authority or which are expressly prohibited by the Glass-Steagall Act.

Beyond this fatally erroneous assumption on the part of the majority, it should be noted that the consideration of commercial bank entry into the mutual fund business by the several administrative agencies pursuant to their respective jurisdictions was quite circumscribed and did not reach the full range of Glass-Steagall



issues raised by this action. Thus, the Securities and Exchange Commission made it absolutely clear on a number of occasions that, in reviewing bank-supported commingled investment accounts under the securities laws, it had no authority to determine, and would not intimate any view on, the legality under the Glass-Steagall Act of commercial bank entry into the mutual fund business.<sup>9/</sup>

Moreover, the Federal Reserve Board evaluated bank-sponsored commingled investment accounts solely with respect to Section 32 of the Glass-Steagall Act, and not with respect to Section 21, the keystone provision of Glass-Steagall upon which Appellees rely. The Board stated that it "expressed no position with respect to whether [Section 21] might be held applicable to the establishment and operation of the proposed 'Commingled Investment Account.'" 12 C.F.R. § 218.111 (1965). Nor did the Board express any opinion as to possible violations of Sections 16 or 20 of the Act.

<sup>9/</sup> In the Matter of First National City Bank, before the Securities and Exchange Commission, IC-4358, as amended, IC-4538a, March 14, 1966. And see Hearings on Amendment No. 438 to S. 1659 before the Senate Banking and Currency Committee, 90th Cong., 1st Sess. (1967), p. 1296; Hearings on Bank and Insurance Company Collective Investment Funds and Accounts, Investment Company Act Amendments of the House Committee on Interstate and Foreign Commerce, 90th Cong., 2nd Sess. (1968), pp. 113-114.

Chairman Cohen advised the House Subcommittee on Commerce and Finance that the SEC "did not participate in 'the present' litigation . . . we have no comment on the interpretation or the resolution of policy issues or statutes which are not within our regulatory jurisdiction or responsibility." Id., at 132. And in his written statement he emphasized that the SEC "did not propose the amendments that would admit banks and it neither supports nor opposes such amendments." Id., at 147.

Thus, even if this were an agency review case, there has been no definitive agency analysis of the critical issues raised here.

3. The Opinion of Chief Judge Bazelon Misapprehended a Number of Critical Points of Law With Respect to Both the Glass-Steagall Act and Section 92a of the Federal Reserve Act.

(a) The Glass-Steagall Act

The keystone provision of the Glass-Steagall Act, providing for "complete separation" of commercial banking from the securities business,<sup>10/</sup> is Section 21. That section applies to all banks, state and national. It prohibits companies engaged in "issuing, underwriting, selling or distributing . . . securities" from engaging "to any extent whatsoever" in the business of commercial banking. Thus, Section 21 forces a square choice: an enterprise can engage in commercial banking or it can engage in issuing, underwriting, selling or distributing securities; it cannot do both.

The opinion of Chief Judge Bazelon did not deal with the provisions of this keystone section. Rather it asserted that Section 21 was merely an appendage of Section 16 of the Glass-Steagall Act and concluded that the specific prohibitions of Section 21 added little to the provisions of Section 16. There

<sup>10/</sup> Agnew v. Board of Governors, 80 U.S. App. D.C. 377, 385, 153 F.2d 785, 793 (1945), rev'd on other grounds, 329 U.S. 441 (1947).

is no justification or legislative support -- and none is cited -- for so diluting the meaning of the express prohibitions of Section 21. In point of fact, Section 16 is the provision which generally confers corporate powers on national banks; it deals only peripherally with the prohibitions of the Glass-Steagall amendments.<sup>11/</sup>

As noted, Section 21 prohibits all banks from "issuing," or "underwriting," or "selling" or "distributing" most types of "securities." Central to an analysis of the scope of this section is whether "units of participation" are "securities" under the Glass-Steagall Act. Indeed, the Comptroller relied exclusively upon this point; he made no contention that the Bank is not engaged in underwriting, selling, and distributing the units of participations. Chief Judge Bazelon did not expressly resolve this critical issue, although his analysis apparently proceeds on the assumption that units of participation are not "securities." His opinion makes no mention of the authoritative ruling to the

<sup>11/</sup> In any event, the authorized activity is in conflict with Section 16 itself. The purpose of the phrase permitting national banks to buy and sell securities "for the account of customers" was to insure that nothing in the Act was construed as denying banks the right to order the purchase or sale of securities on instructions from, and for the account of, their customers. And, while it may be asserted that in investing the Account's funds, the bank is acting "for the account of customers," no one has seriously contended that selling units of participation to bank customers is "purchasing and selling such securities . . . for the account of customers" within the meaning of the Act. On the contrary, such sales are a garden variety form of underwriting. And, Section 16 establishes that national banks shall not "underwrite any issue of securities or stock."

contrary by the Federal Reserve Board that the very units of participation at issue here are securities within the meaning of the Glass-Steagall Act (see Memorandum of Federal Reserve Board, set forth in Hearings on S. 2704, before a Subcommittee of the Committee on Banking and Currency, 89th Cong., 2d Sess. (1966), page 584).

Moreover, Chief Judge Bazelon does not discuss at all three of the four prohibitions of Section 21 -- all written in the disjunctive -- which bar all commercial banks from "issuing," "selling," or "distributing" securities. There can be no doubt that the Bank is engaged in "issuing" participation in its Account within the terms of the Glass-Steagall Act. The Federal Reserve Board has repeatedly held that a primary activity of a mutual fund -- and this necessarily applies to the Bank's Account -- is the continuous process of selling and redeeming shares and that this constitutes the "issuance" of securities within the meaning of Glass-Steagall.<sup>12/</sup>

In connection with the single prohibition that he analyzed, Chief Judge Bazelon apparently concluded that the sale of units of participation is not "underwriting" within the meaning of the Glass-Steagall Act because "the Bank's interest in earning a regulated fiduciary charge bears little resemblance to its interest in earning an indeterminate distributing profit from securities which it owns or underwrites . . . ." (Slip Op., p. 14). But

<sup>12/</sup> 12 C.F.R. § 218.101 (1951).

"earning an indeterminate distributing profit" is not a necessary indicia of "underwriting" under Glass-Steagall; Chief Judge Bazelon cites no legislative history to support this conclusion. Indeed, the Federal Reserve Board has found, in connection with companion prohibitions of Glass-Steagall, that a mutual fund continuously issuing its shares -- as the Bank's Account will -- is engaged in the "public sale" and "distribution" of its securities within the meaning of Glass-Steagall, irrespective of the fact that "the investment company does not derive any direct profit from the sales" of these shares. 12 C.F.R. § 218.101 (1951).

Furthermore, there is no sales charge imposed in connection with the distribution of securities in "no-load" mutual funds. Indeed, no one has yet suggested that a bank could establish a typical "no-load" fund and sell shares in it without violating Section 21 solely because it would earn no underwriting profit -- although, without using this precise language, that is what Chief Judge Bazelon's opinion would apparently permit.

We suggest that an appropriate analysis of these express prohibitions in the context of the purposes of the Glass-Steagall regulatory scheme would inevitably lead to the conclusion that the challenged regulations authorize activity squarely in violation of Section 21.



(b) Section 92a of the Federal Reserve Act

Chief Judge Bazelon concluded that the operation of a commingled managing agency account is a fiduciary activity within the purview of Section 92a of the National Banking Act. He reasoned that because the bank would have a duty of a fiduciary character owed to each investor, it would be acting in a "fiduciary capacity" as that term is used in the Act.

This construction of the statute emasculates the careful regulatory scheme designed by Congress. It virtually reads the term "fiduciary" out of the Act. Whenever a bank obtains funds belonging to an individual, it can be said to have a duty to that individual that partakes of the fiduciary. Indeed, it is difficult to suggest an area in which a bank could act on behalf of a customer without complying with certain basic fiduciary standards.

In Section 92a, Congress clearly did not use the term "fiduciary capacity" in this broad and loose fashion. It intended that term to delimit the scope of activities that could be permitted national banks to meet state bank competition. But Section 92a has always been understood as requiring that a bank act as a true fiduciary and not merely as an investment agent or adviser.<sup>13/</sup> It has not been

13/ 26 Fed. Reserve Bull. 393 (1940).

understood to authorize the "new and free-wheeling form of fiduciary activit[y]" referred to by Chief Judge Bazelon.

C. CONCLUSION

For the foregoing reasons, this Court should order a rehearing en banc in the above-captioned matter.

Respectfully submitted,

  
G. Duane Vieth

  
James F. Fitzpatrick

ARNOLD & PORTER  
1229 19th Street, N.W.  
Washington, D. C. 20036

Counsel for Appellees.

Dated: July 23, 1969.

CERTIFICATE OF SERVICE

I hereby certify that, on this 23rd day of July, 1969,  
I made service of the foregoing Petition for Rehearing by mailing  
a copy thereof, postage prepaid, to other counsel as follows:

Alan S. Rosenthal  
Department of Justice  
Washington, D.C. 20530  
Attorney for Appellant  
in No. 21,662

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Washington, D.C. 20036  
Attorney for Appellant  
in No. 21,661

  
G. Duane Vieth

Attorney for Appellees

JOINT APPENDIX

---

IN THE UNITED STATES COURT OF APPEALS FOR THE  
DISTRICT OF COLUMBIA CIRCUIT

---

No. 21,661

---

FIRST NATIONAL CITY BANK,

Appellant,

v.

INVESTMENT COMPANY INSTITUTE, et al.,

Appellees.

---

No. 21,662

---

United States Court of Appeals  
for the District of Columbia Circuit

FILED APR 30 1968

*Nathan J. Paulson*  
CLERK

WILLIAM B. CAMP,  
Comptroller of the Currency,

Appellant,

v.

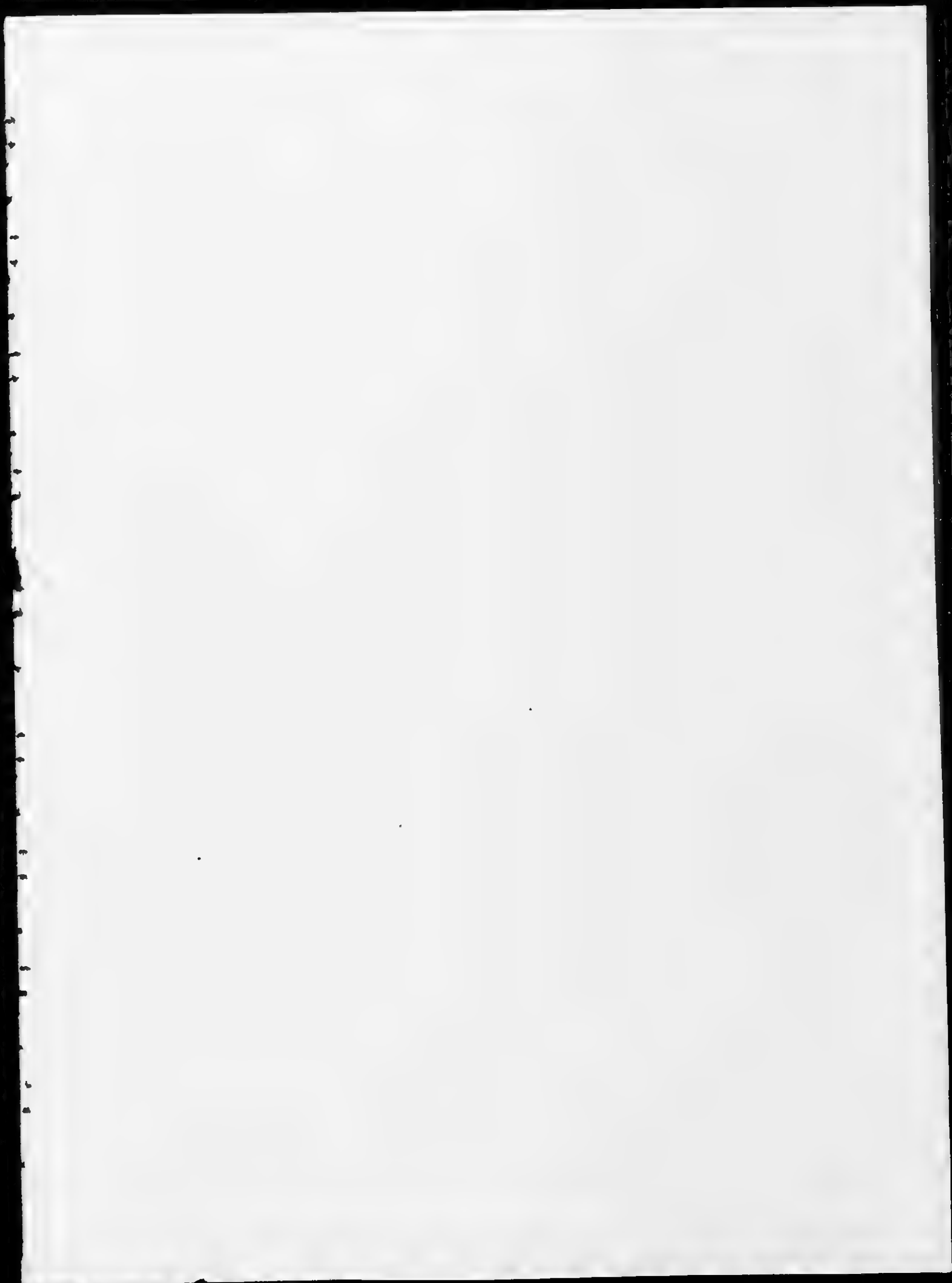
INVESTMENT COMPANY INSTITUTE, et al.,

Appellees.

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ON APPEALS FROM THE UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF COLUMBIA

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# INDEX

	<u>Page</u>
Docket entries . . . . .	1
Complaint and declaratory judgment and injunctive and other relief . . . . .	5
Answer . . . . .	21
Plaintiffs' Motion for Summary Judgment . . . . .	26
Affidavit of Robert L. Augenblick in support of Plaintiffs' Motion for Summary Judgment . . . . .	28
Affidavit of John R. Haire in Support of Plaintiffs' Motion for Summary Judgment . . . . .	40
Affidavit of Joseph E. Welch in support of Plaintiffs' Motion for Summary Judgment . . . . .	44
Affidavit of Stuart F. Silloway in support of Plaintiffs' Motion for Summary Judgment . . . . .	47
Affidavit of Adron P. Trantum in support of Plaintiffs' Motion for Summary Judgment . . . . .	50
Affidavit of James F. Fitzpatrick in support of Plaintiffs' Motion for Summary Judgment . . . . .	53
Exhibit No. 1 to Fitzpatrick Affidavit . . . . .	56
Exhibit No. 4 to Fitzpatrick Affidavit . . . . .	107
Exhibit No. 5 to Fitzpatrick Affidavit . . . . .	108
Exhibit No. 7 to Fitzpatrick Affidavit . . . . .	152
Exhibit No. 8 to Fitzpatrick Affidavit . . . . .	153
Exhibit No. 9 to Fitzpatrick Affidavit . . . . .	154
Exhibit No. 10 to Fitzpatrick Affidavit . . . . .	163
Exhibit No. 12 to Fitzpatrick Affidavit . . . . .	168
Exhibit No. 13 to Fitzpatrick Affidavit . . . . .	183
Exhibit No. 14 to Fitzpatrick Affidavit . . . . .	192

	<u>Page</u>
Exhibit No. 15 to Fitzpatrick Affidavit . . . . .	193
Exhibit No. 16 to Fitzpatrick Affidavit . . . . .	195
Exhibit No. 17 to Fitzpatrick Affidavit . . . . .	202
Defendant's Cross-Motion for Summary Judgment and Opposition to Plaintiffs' Motion for Summary Judgment . . . . .	209
Affidavit of William B. Camp in support of Defendant's Cross-Motion for Summary Judgment . . . . .	212
Affidavit of Robert I. Hoguet, Jr. in support of Defendant's Cross- Motion for Summary Judgment . . . . .	219
Opinion denying Motion for Defendant for Summary Judgment and Granting Motion of Plaintiffs for Summary Judgment . . . . .	233
Motion of First National City Bank for leave to Intervene as a Defendant . . . . .	272
Affidavit of Robert I. Hoguet in support of First National City Bank's Motion for leave to Intervene and Motion to Grant a Stay . . . . .	275
Answer of First National City Bank, Intervenor, to Plaintiffs' Complaint . . . . .	280
Order of November 9, 1967 . . . . .	282
Order of November 21, 1967 . . . . .	286
Notice of Appeal (William B. Camp, Comptroller) . . . . .	288
Notice of Appeal (First National City Bank) . . . . .	289

CIVIL DOCKET

UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

Parties

INVESTMENT COMPANY INSTITUTE  
By Dorsey Richardson, Its President  
INVESTORS DIVERSIFIED SERVICES, INC.  
INVESTORS MANAGEMENT COMPANY, INC.  
HUGH W. LONG & COMPANY, INC.  
WELLINGTON MANAGEMENT COMPANY  
WELLINGTON COMPANY, INC.

v.

JAMES J. SAXON  
Comptroller of the Currency

v.

THE FIRST NATIONAL CITY BANK,

Intervenor

Attorneys

Arnold & Porter  
G. Duane Vieth  
James F. Fitzpatrick  
Charles R. Halpern  
1229 - 19th St., N. W.

John W. Douglas  
Harland F. Leathers

Irwin Goldbloom  
Dept. of Justice

ACTION FOR  
DECLARATORY JUDGMENT, ETC.

DATE	ACCOUNT	REC'D	DISB'D
1966			
Apr 25	Halpern	10.00	
Apr 25	U. S. Treas.		10.00
1967			
Oct 13	Ailes	5.00	
Oct 13	U. S. Treas.		5.00
1968			
Jan 5	Cox	5.00	
Jan 5	U. S. Treas.		5.00

# PROCEEDINGS

1966	Deposit for cost by	
Apr 25	Complaint, appearance	
Apr 25	Summons. copies (3) and copies (3) of Complaint issued	
	ser 4/26/66; DA ser 4/26/66; AG ser 4/27/66	
Jun 23	Stipulation extending time for deft. to answer to and	
	including 7/11/66. Appearance of Irwin Goldbloom.	
	filed	
Jul 11	Stipulation extending time for deft. to plead to and	
	including 7/18/66. (Fiat). Curran, J.	
Jul 18	Answer of deft to complaint; c/m 7/18/66: appearance	
	John W Douglas, Harland F Leathers and Irwin	
	Goldbloom.	filed
Jul 18	Calendared (AC/N) (N)	
Nov 30	Motion of plaintiffs for summary judgment; statement:	
	points and authorities; c/m 11/30/66; affidavits (6);	
	exhibits 1 thru 15 to affidavit of James F Fitzpatrick:	
	M.C. 11/30/66.	filed
Dec 5	Stipulation of counsel extending time for defendant to	
	file opposition to motion for summary judgment to and	
	including 1/27/67.	filed
1967		
Jan 25	Stipulation extending to and including 2-27-67 time for	
	deft. to oppose motion for summary judgment.	filed
Feb 27	Stipulation extending time for deft. to respond to	
	motion for summary judgment.	filed
Mar 27	Stipulation extending time until April 3, 1967 for deft.	
	to answer motion of pltffs. for summary judgment.	filed
Apr 3	Stipulation extending to and including 4-14-67 time for	
	deft. to respond to pltffs' motion for summary judg-	
	ment.	filed
Apr 4	Cross-motion of deft. for summary judgment and opposition	
	to motion of pltff. for summary judgment; affidavits (2);	
	statement; P&A; c/m 4-4; M. 1 4-4	filed
Apr 10	Stipulation extending time for pltff. to respond to cross-	
	motion of deft. for summary judgment and for deft. to	
	oppose motion of pltff. for summary judgment until	
	5-10-67.	filed
Apr 13	Called.	Asst. Pretrial Examiner
May 10	Stipulation extending until 6-6-67 time for pltfs to	
	respond to deft's cross motion for summary judgment	
	and opposition to pltfs' motion for summary judgment.	
		filed
June 6	Reply memorandum of pltff; c/mailling	filed

# PROCEEDINGS

1937

Jun 28 Reply memorandum of deft. to reply of pltf. to cross-motion for summary judgment; c/m 6-28-67 filed

Jun 28 Supplemental affidavit of James F. Fitzpatrick in support of pltf motion for summary judgment; exhibits 16 & 17; c/s 6/28/67. filed

Jun 29 Motions of pltfs. for summary judgment and cross-motion for summary judgment argued and taken under advisement. (Rep: Ida Watson) McGarraghy, J.

Aug 8 Transcript of proceedings; 6-29-67; pp. 1-74; (Rep. Ida Z Watson. Court's copy) filed

Sept 27 Opinion denying Motion of Defendant for summary judgment and granting motion of plaintiffs for summary judgment. (Order to be presented) (N) McGarraghy, J.

Oct 10 Motion of deft for stay pending appeal; P&A; c/m 10-10 filed

Oct 13 Motion of First National City Bank for leave to intervene as a defendant; affidavit; P&A; exhibit: c/s 10-13-67; MO. Deposit \$5.00 by Ailes; app. Steptoe & Johnson. filed

Oct 23 Opposition of pltfs to motion of National City Bank to intervene; c/m 10-23-67. filed

Oct 24 Opposition of pltfs to motions for stay and to deft. Comptroller's proposed order; c/m 10-23-67. filed

Nov 9 Proposed order of pltf. for judgt. filed

Nov 9 Objection of deft. to order as proposed by pltfs. filed

Nov 9 Proposed order of deft. for judgt. filed

Nov 9 Proposed order for stay. filed

Nov 9 Memorandum granting motion of The First National City Bank to intervene and limiting it to the purpose of prosecuting an appeal from the judgment. (N) McGarraghy, J.

Nov 9 Judgment declaring those portions of Regulation 9, 12 C.F.R. Para. 9 in violation of Sections 16, 20, 21 and 32 of Nat'l Banking Act of 1933, as amended; declaring Comptroller's approval of plan of First Nat'l. City Bank of N. Y. illegal; directing Comptroller to set aside any portion of Regulation 9 declared illegal and enjoining Comptroller from continuing in effect any prior approval to any bank which might have heretofore permitted operation of managing agency collective investment funds under Reg. 9 and directing him to set aside forthwith and rescind any such prior approval; provisions of this order stayed pending ultimate disposition of any appeal taken. provided Comptroller shall not authorize any national banks to commence operation of a managing agency collective investment fund. (N) McGarraghy, J.



# PROCEEDINGS

1957

Nov 21      Order granting motion of the First National City Bank  
for leave to intervene as a party defendant in this  
action under FRCP 24(a) for limited purposes. (N)  
McGarraghy, J.

1968

Jan 5 Notice of appeal of intervenor from order of 11-9;  
deposit by Cox \$5.00 (copies mailed to A. Duane Vieth  
and Irwin Goldbloom) filed

Jan 5 Cost bond on appeal (Cash security) in amount of  
\$250.00 by Cox. filed

Jan 5 Notice of appeal by deft. from judgment of Nov 9,  
1967. (copies mailed to G. Duane Vieth, Stephen Ailes).  
filed

[Filed April 25, 1966]

IN THE UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF COLUMBIA

-----  
INVESTMENT COMPANY INSTITUTE  
By Dorsey Richardson, Its President  
61 Broadway  
New York, New York

INVESTORS DIVERSIFIED SERVICES, INC.  
Investors Building  
Minneapolis, Minnesota

INVESTORS MANAGEMENT COMPANY, INC.  
Westminster at Parker  
Elizabeth 3, New Jersey

HUGH W. LONG & COMPANY, INC.  
Westminster at Parker  
Elizabeth 3, New Jersey

WELLINGTON MANAGEMENT COMPANY  
1630 Locust Street  
Philadelphia, Pennsylvania

WELLINGTON COMPANY, INC.  
1630 Locust Street  
Philadelphia, Pennsylvania,

Plaintiffs

v.

Civil Action No.  
1083-66

JAMES J. SAXON  
Comptroller of the Currency  
Office of the Comptroller of  
the Currency  
Fifteenth and Pennsylvania Avenue  
Washington, D. C.,

Defendant  
-----

COMPLAINT FOR DECLARATORY JUDGMENT  
AND INJUNCTIVE AND OTHER RELIEF

Plaintiffs, by their attorneys, bring this action against

the above-named defendant and allege:

Jurisdiction and Venue

1. This is a civil action for a declaratory judgment and injunctive and other relief. It arises under Sections 16, 20, 21 and 32 of the National Banking Act of 1933, as amended, (herein referred to as "the Glass-Steagall Act"), codified in Sections 24, 377, 378 and 78, 12 U.S.C., respectively, as well as under Section 92(a), 12 U.S.C. This Court has jurisdiction under the provisions of 12 U.S.C. § 1331; the Declaratory Judgment Act, 28 U.S.C. § 2201-02; the Administrative Procedure Act, 5 U.S.C. § 1009; and the District of Columbia Code, Sections 11-305 and 11-306. Venue is established under the provisions of Section 1391(b) and 1391(e)(1), 28 U.S.C. There exists between each plaintiff and the defendant an actual controversy, justiciable in character, in respect of which plaintiffs require a determination of their rights by this Court. The amount in controversy exceeds \$10,000.

Parties

2. Plaintiff Investment Company Institute (herein referred to as the "Institute") is an unincorporated association, having its principal place of business in the City, County and State of New York. At the time of the commencement of this action, Dorsey Richardson was the President thereof. It is a national association having as its members 174 open-end investment companies, and their 87 investment advisers and 78 principal underwriters. Open-end investment companies are commonly

referred to, and will herein be referred to, as "mutual funds." The Institute is suing in a representative capacity for all its members which will be injured irreparably by the illegal acts here complained of. The great majority of its mutual fund members is engaged in the business of issuing and offering for sale redeemable securities which represent an undivided interest in the portfolio of securities owned by the fund. Each mutual fund member is registered as an open-end investment company with the Securities and Exchange Commission (herein referred to as the "SEC") under the Investment Company Act of 1940 (herein referred to as "the 1940 Act"); and the securities issued by each member fund are registered with the SEC under the Securities Act of 1933 (herein referred to as "the 1933 Act"). Together, the mutual fund members of the Institute have assets of over \$36 billion (being about 94% of the assets of all mutual funds in the United States) and have approximately 3.5 million shareholders. Each of the investment adviser members of plaintiff Institute is, pursuant to the contractual arrangements required by Section 15 of the 1940 Act, engaged in the business of regularly furnishing to one or more mutual fund members advice with respect to the desirability of investing in, purchasing, or selling securities, or is empowered to determine what securities shall be purchased or sold by such mutual fund. Each of the principal underwriter members of plaintiff Institute is, pursuant to the contractual arrangements required by Section 15 of the 1940 Act, engaged in the business of purchasing from one or more mutual fund members its securities for distribution or,

as agent for such mutual fund, selling or having the right to sell the securities of such fund to a dealer or to the public or both.

3. (a) Plaintiff Investors Diversified Services, Inc., an Institute member, is incorporated under the laws of the State of Minnesota and has its office and principal place of business at Minneapolis, Minnesota. It acts as investment adviser and principal underwriter, pursuant to Section 15 of the 1940 Act, to the following open-end investment companies: Investors Mutual Inc.; Investors Stock Fund, Inc.; Investors Variable Payment Fund, Inc.; and Investors Selective Fund, Inc., all of which are Institute members. There are more than three-quarter million investors in these open-end investment companies residing throughout the United States. Securities of each of these open-end companies are offered for sale and sold throughout the nation, and a substantial number of such shares are offered for sale and sold in the City and State of New York.

(b) Plaintiff Investors Management Company, Inc., is incorporated under the laws of the State of New Jersey and has its office and principal place of business at Elizabeth, New Jersey; plaintiff Hugh W. Long & Company, Inc., is incorporated under the laws of the State of Nevada and has its office and principal place of business at Elizabeth, New Jersey. Both are Institute members. Pursuant to Section 15 of the 1940 Act, Investors Management Company, Inc., acts as investment adviser, and Hugh Long & Company acts as principal underwriter, to the following open-end investment companies currently engaged in



issuing and selling their shares, all of which are Institute members: Fundamental Investors, Inc.; Diversified Investment Fund, Inc.; and Diversified Growth Stock Fund, Inc. There are more than 250,000 investors in these open-end investment companies residing throughout the United States. Securities of each of these open-end companies are offered for sale and sold throughout the nation, and a substantial number of such shares are offered for sale and sold in the City and State of New York.

(c) Plaintiffs Wellington Management Company and Wellington Company, Inc., are both incorporated under the laws of the State of Delaware and have their offices and principal places of business at Philadelphia, Pennsylvania. Both are Institute members. Pursuant to Section 15 of the 1940 Act, Wellington Management, Inc., acts as investment adviser, and Wellington Company, Inc., acts as principal underwriter, to the following open-end investment companies currently engaged in issuing and selling their shares, both of which are Institute members: Wellington Fund, Inc., and Windsor Fund, Inc. There are more than 375,000 investors in these open-end investment companies residing throughout the United States. Securities of both of these open-end companies are offered for sale and sold throughout the nation, and a substantial number of such shares are offered for sale and sold in the City and State of New York.

4. Defendant James J. Saxon is the Comptroller of the Currency (herein referred to as the "Comptroller") and is charged by law with administrative and regulatory authority

with respect to national banks. His official residence is Washington, D. C. He is sued in his individual capacity as a result of certain acts here described which were taken in excess of his statutory authority.

5. The purpose of this action is to secure a declaratory judgment, with appropriate injunctive and other relief, that (i) those provisions of the Comptroller's Regulation 9, 12 C.F.R. § 9.18, which permit banks to establish and operate collective investment funds composed of monies deposited with the bank as managing agent (such collective investment funds herein referred to as "bank investment funds") which are functionally identical to mutual funds, and those actions of the Comptroller in approving the application of First National City Bank of New York, a national bank and member of the Federal Reserve System with its office and principal place of business in the City and State of New York (herein referred to as "the Bank"), to operate such a bank investment fund under these regulations, are unlawful inasmuch as they were taken by defendant Comptroller in excess of his statutory authority and in violation of Sections 16, 20, 21 and 32 of the Glass-Steagall Act which prohibit commercial banks from engaging in the securities business and (ii) that the approval of the Bank's plan is illegal and in excess of the Comptroller's statutory authority in that such approval permits activity which is prohibited by Section 92(a), 12 U.S.C.

**Claim For Relief Based Upon  
Glass-Steagall Act**

6. The Glass-Steagall Act, enacted in 1933 and amended in 1935, was enacted in substantial part to separate and divorce commercial banks from the securities business. Section 21 of the Act, a criminal section, prohibits commercial banks from engaging in the business of issuing, underwriting, selling or distributing securities, with certain exceptions not relevant here. Section 16 provides that national banks cannot deal in equity securities, except for purchases and sales made solely upon the order and for the account of customers, and that national banks cannot underwrite any issue of securities. Section 32 prohibits officers and directors of member banks of the Federal Reserve System from serving in similar capacities with any enterprise primarily engaged in the issue, underwriting, sale or distribution of securities. Section 20 provides that no member bank shall be affiliated, as defined in the banking laws, with an organization principally engaged in the issue, flotation, underwriting, sale or distribution of securities. The Comptroller's regulations and action complained of here authorize activity in direct violation of these prohibitions and are thereby in excess of the Comptroller's statutory authority.

7. Upon information and belief, after one year following the passage of the Glass-Steagall Act, and to date, no bank has operated a bank investment fund. The Glass-Steagall prohibitions have consistently been administered to restrain

?-

mutual funds from creating interlocking relationships with commercial banks.

8. Prior to the effective date of the Glass-Steagall Act, plaintiff Investors Management Company, Inc., was a corporation organized under the laws of the State of New York and was a wholly-owned subsidiary of Irving Trust Company, a New York state bank and member of the Federal Reserve System. At that time Investors Management Company, Inc., was named Irving Investors Management Company, Inc., and, among other things, served as underwriter and investment adviser for Irving Investors Fund C, Inc., an investment fund operated in a manner virtually identical to the operation of present-day open-end investment companies. In consequence of the passage of the Glass-Steagall Act and rulings of the Federal Reserve Board made pursuant thereto, Irving Trust Company in 1934 divested itself of all of its interest in Irving Investors Management Company, Inc., and in Irving Investors Fund C, Inc. (the name of which was thereupon changed to Investors Fund C, Inc.), and thereafter Irving Trust Company had no further connection with the distribution of the shares of that fund or with the management thereof. In 1954, Investors Fund C, Inc., was merged into the aforesaid Fundamental Investors, Inc., and in 1964, plaintiff Investors Management Company, Inc., was reincorporated under the laws of the State of New Jersey.

9. Until 1962, the statutory authority to regulate the fiduciary activities of national banks was vested in the Federal Reserve Board. The Board consistently and diligently

administered its authority until 1962 so as to prohibit any national or member bank from offering to its customers or to the public shares or participations in collective investment funds solely for investment purposes and not for bona fide fiduciary purposes.

10. In September, 1962 the statutory authority to regulate the fiduciary activities of national banks was transferred to the Comptroller of the Currency. 76 Stat. 668, 12 U.S.C. § 92(a). Assertedly pursuant to such authority, on February 4, 1963 the Comptroller issued a notice of proposed rule-making concerning the promulgation of revised rules which, in part, were intended to authorize the collective investment of funds contributed to the bank as managing agent solely for investment purposes, and not for bona fide fiduciary purposes. The Comptroller invited national banks and interested parties to submit comments pertaining to the proposed regulation. Plaintiff Institute, on behalf of its members, participated to the full degree permitted and submitted a statement in opposition to the proposed regulations because they permitted banks to enter the mutual fund business, asserting in part that such activity violated the Glass-Steagall Act. Final regulations were adopted by the Comptroller on April 5, 1963; such regulations were amended February 5, 1964.

11. These regulations permitted banks to create and operate bank investment funds which are the functional equivalents of the mutual fund members of plaintiff Institute and permitted banks, for the first time, to offer for sale

securities in the form of participations in bank investment funds for the purpose of general investment. Under these regulations, a bank can pool the moneys of the investing public in a fund which will be invested in equity and other securities, and can operate and manage such fund. A bank investment fund will offer and issue participations to the investing public representing undivided shares in the collective account; these participations will be sold, distributed and underwritten exclusively by a bank and its employees. An investor in a bank investment fund will have the right to redeem his participation -- i.e., to draw out his share of the undivided assets in the fund in the form of cash based on net asset value of the participation. In all these particulars, the operation of a bank investment fund authorized by the Comptroller's regulations is indistinguishable in all material respects from the operation of the mutual fund members of plaintiff Institute. The activities of a bank and its employees in advising and managing a bank investment fund and in distributing, selling, and underwriting the participations in a bank investment fund are indistinguishable in all material respects to those of adviser and underwriter members of plaintiff Institute.

12. Pursuant to and under the provisions of such regulations, the Comptroller, on May 28, 1965, approved a plan to operate a bank investment fund submitted by the Bank. Such bank investment fund proposed by the Bank was labelled a



"Collective Investment Account" (herein referred to as the "Account"). The Bank's Account will be operated as a bank investment fund essentially as described in paragraph 11. Under the Bank's plan as approved by the Comptroller, the Bank will promote its Account as part of its fiduciary activities, and Bank employees will sell, distribute, and underwrite the participations in the Account to the customers of the Bank and others who desire to invest in the Account.

13. The Bank has publicly announced that it intends to register its Account with the SEC as an open-end investment company under the 1940 Act in a manner similar to the registration of the mutual fund members of plaintiff Institute as open-end investment companies. The Bank on April 21, 1966, filed a registration statement with the SEC for the purpose of registering the participations in the Account as securities under the 1933 Act, in a manner similar to the registration of the securities issued by the mutual fund members of plaintiff Institute. The Comptroller has announced that he has encouraged and supported the Bank's plan to register its Account under the 1940 Act and the securities in the Account under the 1933 Act.

14. Notwithstanding the fact that the Bank, with the approval of the Comptroller, intends to register its Account with the SEC under the 1940 Act as an open-end investment company, the Federal Reserve Board, in a formal ruling, has erroneously held that the arrangement proposed by the Bank to operate a bank investment fund does not violate the prohibitions

of Section 32 of the Glass-Steagall Act against interlocking relationships because, in its view, the Account is merely an arm or department of the bank. 30 Fed. Reg. 12836 (1965), adding 12 C.F.R. § 218.111. The said ruling does not refer to the legality of the Bank's plan under Sections 16 and 20 of the Glass-Steagall Act, and it explicitly states that the Federal Reserve Board "expressed no position with respect to whether" the proposed activity by the Bank, approved under the Comptroller's regulations here challenged, violates Section 21 of the Glass-Steagall Act.

15. The Bank intends to commence operation of its Account in the near future and commence offering for sale the participations in its Account to customers of the Bank and others. Similarly, other national banks have indicated that they plan to seek approval of plans under the Comptroller's regulations here challenged to permit them to operate bank investment funds. The Comptroller has stated that bank investment funds will capture substantial mutual fund business within the next five years.

16. To the extent that Regulation 9 authorizes the creation of bank investment funds, it is illegal and its issuance was undertaken by the Comptroller in excess of his statutory authority, because such Regulation authorizes, permits, and encourages banks to engage in activity illegal under Sections 16, 20, 21 and 32 of the Glass-Steagall Act. Likewise, the Comptroller's approval of the Bank's plan to operate its Account under such illegal Regulation is illegal, in excess of

his statutory authority, and of no effect inasmuch as it authorizes the Bank to engage in activity illegal under the Glass-Steagall Act. The Bank and its employees will be engaged in the sale, distribution and underwriting of securities registered under the 1933 Act, namely, the participations in the Account. This activity specifically violates Sections 16 and 21 of the Glass-Steagall Act. Further, the Comptroller's regulations and actions permit national banks, including the Bank, to have affiliations with or interlocking relationships with proposed bank investment funds which are engaged in the issuance of their own securities. Such relationships violate Sections 20 and 32 of the Glass-Steagall Act.

Claim For Relief Based Upon Section 92(a)  
of National Banking Laws

17. The Comptroller's action in approving the Bank's plan under the challenged regulations is also illegal and in excess of his authority under the provisions of Section 92(a), 12 U.S.C. That section limits the authority of the Comptroller to permit national banks to act only in those fiduciary capacities in which state banks, which come into competition with national banks, are permitted to operate under state law. The banking laws of the State of New York do not permit competing New York state banks to operate bank investment funds of the type contemplated by the Comptroller's regulations challenged herein or by the Bank's plan as approved by the Comptroller under such regulations.

Injury

18. The members of plaintiff Institute, for whom it sues in a representative capacity, and the additional

plaintiffs, will suffer present and continuing serious and irreparable injury as a direct result of the illegal activity authorized by the Comptroller's challenged regulations and particularly as a result of the Bank's proposed illegal activity which was approved by the Comptroller under such regulations. This illegal activity will subject the Institute's mutual fund members to illegal competition, will deprive them of legitimate business, and will dilute, divert, and withdraw a substantial portion of the potential market for securities in mutual funds to the substantial and irreparable injury of such plaintiffs and the shareholders in such funds. This illegal activity will also subject the Institute's investment adviser and underwriter members, including the additional plaintiffs, to illegal competition and to loss of opportunities for profit in their trade and will dilute, divert and withdraw a substantial portion of the potential market for their services to the irreparable injury of such plaintiffs. Further, the members of the Institute, including the additional plaintiffs -- which are all themselves subject to the prohibitions of the Glass-Steagall Act which prevent them from expanding their operations into the commercial banking business -- are directly interested and aggrieved parties entitled to review and challenge the official action of the Comptroller which permits commercial banks to expand their activities into the securities business, in violation of the Glass-Steagall Act.

19. Plaintiffs have no adequate remedy at law and have no means available to them to protect their rights other than the present action.

Relief Requested

Wherefore, plaintiffs pray that:

(1) this Court declare that the promulgation of those portions of Regulation 9 which permit banks to engage in and operate bank investment funds be declared unlawful as being in excess of the Comptroller's statutory authority and in violation of Sections 16, 20, 21 and 32 of the Glass-Steagall Act; and

(2) this Court declare that the Comptroller's approval of the Bank's plan to operate a bank investment fund under such regulations is illegal, in excess of his statutory authority, void, and of no effect inasmuch as it was made pursuant to regulations which are illegal under Sections 16, 20, 21 and 32 of the Glass-Steagall Act; and

(3) this Court declare that the Comptroller's approval of the Bank's proposed plan to operate its Account is illegal, in excess of his statutory authority, void, and of no effect, inasmuch as it permits activity which is not permitted by the provisions of Section 92(a), 12 U.S.C.; and

(4) this Court order that the Comptroller set aside any portion of Regulation 9 declared illegal pursuant to prayer (1) above and enjoin the Comptroller from authorizing any bank to operate bank investment funds under such regulations; and

(5) this Court enjoin the Comptroller from continuing in effect any prior approval to any bank, including his approval of the Bank's plan, which might have heretofore permitted the operation of bank investment funds under such illegal regulations, and to order that he set aside or rescind any such prior approval; and

(6) that the Court grant such other and further relief as may be appropriate.

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G. Duane Vieth

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James F. Fitzpatrick

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Charles R. Halpern

1229 Nineteenth Street, N.W.  
Washington, D. C. 20036

Attorneys for Plaintiffs

OF COUNSEL:

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Washington, D. C. 20036

April 25, 1966



[Filed July 18, 1966]

IN THE UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF COLUMBIA

-----  
INVESTMENT COMPANY INSTITUTE, ET AL.,

Plaintiffs,

v.

JAMES J. SAXON,  
Comptroller of the Currency,

Defendant.  
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Civil Action No. 1083-66

ANSWER

Defendant, James J. Saxon, Comptroller of the Currency, by his undersigned attorneys, in answer to the complaint herein, admits, denies, and alleges as follows:

1. Defendant admits the allegations contained in the first sentence of paragraph 1 of the complaint. Defendant denies the remaining allegations contained in paragraph 1 of the complaint, and refers the Court to the text of the various statutes cited in paragraph 1 of the complaint for the terms thereof.

2 and 3. Defendant alleges that he is without knowledge or information sufficient to form a belief as to the truth of the allegations contained in paragraphs 2 and 3 of the complaint, except that defendant denies the allegations that the acts of defendant are illegal and denies that plaintiff Institute or its members will be, are, or have been irreparably or otherwise injured.

4. Defendant denies the allegations contained in paragraph 4 of the complaint, except that he admits that he is the Comptroller of the Currency, that his official residence is Washington, D.C., and refers the Court to the text of the National Bank Act, 12 U.S.C. 1 et seq., for the statutory authority of the Comptroller of the Currency.

5. Defendant denies the allegations contained in paragraph 5 of the complaint, except that defendant admits that on May 10, 1965, he gave specific approval under provisions of Section 9.18 (c)(5) of the Comptroller's regulations, 12 CFR 9.18(c)(5), to the establishment and operation of the Commingled Investment Account proposed by First National City Bank, and the Court is respectfully referred to the text of the Comptroller's Regulation 9, 12 CFR §9 et seq., and to the text of the various statutes cited in paragraph 5 of the complaint for the terms thereof.

6. Defendant denies the allegations contained in paragraph 6 of the complaint, except that defendant admits that the Glass-Steagall Act was enacted in 1933 and thereafter amended, and defendant refers the Court to the text of the various statutory provisions cited in paragraph 6 and to the text of the Comptroller's regulations for the terms thereof.

7 and 8. Defendant alleges that he is without knowledge or information sufficient to form a belief as to the truth of the allegations contained in paragraphs 7 and 8 of the complaint.

9. Defendant neither admits nor denies plaintiffs' paraphrasing of the Federal Reserve Act, 12 U.S.C. 248(k), as repealed and supplemented, 76 Stat. 668 et seq., 12 U.S.C. 92a, contained in the first sentence of paragraph 9 of the complaint, but refers the Court to those sections for an exact statement of the terms and provisions thereof. Defendant alleges that he is without knowledge or information sufficient to form a belief as to the truth of the allegations contained in the last sentence of paragraph 9 of the complaint.

10. Defendant neither admits nor denies plaintiffs' paraphrasing of the Federal Reserve Act, 12 U.S.C. 248(k), as repealed and supplemented, 76 Stat. 668 et seq., 12 U.S.C. 92a, contained in the first sentence of paragraph 10 of the complaint, but refers the Court to those sections for an exact statement of the terms and provisions thereof. Defendant denies the remaining

allegations contained in paragraph 10 of the complaint, except that he admits that on January 31, 1963, he issued a notice of proposed rule making, published in the Federal Register at 28 F.R. 1111; that plaintiff Institute participated to the full degree permitted in the rule making proceedings and submitted a statement in opposition to the proposed regulations; that regulations were adopted by the Comptroller of the Currency on April 5, 1963, and published in the Federal Register at 28 F.R. 3309; and that the regulations were amended and the amendments published in the Federal Register at 29 F.R. 1719; and the Court is referred to the text of the notice for proposed rule making, the regulations as adopted and thereafter amended for the terms thereof and to the statement in opposition submitted by plaintiff Institute for the position asserted therein.

11. Defendant denies the allegations contained in paragraph 11 of the complaint, and refers the Court to the text of the Comptroller's Regulations 9, 12 CFR §9 et seq., for the terms thereof.

12. Defendant denies the allegations contained in paragraph 12 of the complaint, except that he admits that on May 10, 1965, the Comptroller of the Currency gave specific approval under the provisions of the Comptroller's Regulation 9 to the establishment and operation of the Commingled Investment Account proposed by First National City Bank, and the Court is respectfully referred to the conditions of the specific approval granted by the Comptroller, the prospectus of the Commingled Investment Account filed with the Comptroller of the Currency by First National City Bank in connection with its request for the approval of such Account by the Comptroller of the Currency, and to applicable statutes and regulations for the manner of operation of said Account.

13. Defendant alleges that he is without knowledge or information sufficient to form a belief as to the truth of the allegations contained in the first sentence of paragraph 13 of the complaint. Defendant denies the remaining allegations contained in paragraph 13 of the complaint, except that he admits that on April 20, 1966, registration statements relating to the Commingled Investment Account were filed with the Securities and Exchange Commission and refers the Court to the text of the registration statements for the terms thereof; and that on August 25, 1965, the Office of the Comptroller of the Currency issued a statement supporting and approving the plans of First National City Bank to establish a commingled fund for agency accounts and refers the Court to the text of such statement.

14. Defendant denies the allegations contained in paragraph 14 of the complaint, except that he admits that the Federal Reserve Board issued a ruling dated September 29, 1965, and published in the Federal Register at 30 F.R. 12836, and the Court is referred to the text of said ruling for the terms thereof.

15. Defendant alleges that he is without knowledge or information sufficient to form a belief as to the truth of the allegations contained in the first two sentences of paragraph 15 of the complaint, except that defendant admits that First National City Bank has commenced the operation of its Commingled Investment Account, and denies the allegations contained in the last sentence of paragraph 15 of the complaint.

16. Defendant denies the allegations contained in paragraph 16 of the complaint, and refers the Court to the text of the various statutes and regulations of the Comptroller of the Currency cited for the terms thereof.

17. Defendant denies the allegations contained in paragraph 17 of the complaint, and refers the Court to the text of the statutes cited for the terms thereof.

18. Defendant denies the allegations contained in paragraph 18 of the complaint, and specifically denies that there exists in this action a justiciable case or controversy between plaintiffs and the defendant and further defendant specifically denies that plaintiffs have standing to maintain this action.

19. Defendant denies the allegations contained in paragraph 19 of the complaint.

20. Defendant denies each and every allegation of the complaint not herein admitted, qualified, or denied.

FIRST AFFIRMATIVE DEFENSE

Plaintiffs lack standing to maintain this action.

SECOND AFFIRMATIVE DEFENSE

The Court lacks jurisdiction over the subject matter of this action.

THIRD AFFIRMATIVE DEFENSE

The complaint fails to allege the existence of a justiciable case or controversy.

FOURTH AFFIRMATIVE DEFENSE

The complaint fails to state a claim upon which relief can be granted.

WHEREFORE, having fully answered, the defendant, the Comptroller of the Currency of the United States, prays:

1. That the relief requested by the plaintiffs be denied and that the complaint be dismissed; and

2. That the defendant be given all such other and further relief as the Court may deem just and proper.

Respectfully submitted,

\_\_\_\_\_  
JOHN W. DOUGLAS  
Assistant Attorney General

\_\_\_\_\_  
HARLAND F. LEATHERS

\_\_\_\_\_  
IRWIN GOLDBLOOM  
Attorneys, Department of Justice  
Washington, D.C. 20530

Attorneys for Defendant

[Filed November 30, 1966]  
IN THE UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF COLUMBIA.

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INVESTMENT COMPANY INSTITUTE, et al.,

Plaintiffs,

v.

WILLIAM B. CAMP,

Defendant.

Civil Action

No. 1083-66

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PLAINTIFFS' MOTION FOR SUMMARY JUDGMENT

Each of the plaintiffs moves the Court on the Complaint filed in this case, Plaintiffs' Statement of Material Facts as to which There is No Genuine Issue, and the Affidavits in support of plaintiffs' motion for summary judgment filed by Robert L. Augenblick, Joseph E. Welch, Stuart F. Silloway, John R. Haire, Adron P. Trantum and James F. Fitzpatrick, for summary judgment under Rule 56 of the Federal Rules of Civil Procedure and for the relief prayed for in the Complaint, on the ground that there is no genuine issue as to any material fact and that plaintiffs



are entitled to judgment as a matter of law.

  
G. Duane Vieth

  
James F. Fitzpatrick

  
Charles R. Halpern

Of Counsel:

ARNOLD & PORTER  
1229 - 19th Street, N.W.  
Washington, D.C. 20036

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Washington, D.C. 20036

Attorneys for Plaintiffs

IN THE UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF COLUMBIA

-----X  
INVESTMENT COMPANY INSTITUTE, et al.,

Plaintiffs,

v.

JAMES J. SAXON,

Defendant.  
-----X

Civil Action  
No. 1083-65

AFFIDAVIT OF ROBERT L. AUGENBLICK  
IN SUPPORT OF PLAINTIFFS' MOTION  
FOR SUMMARY JUDGMENT

STATE OF NEW YORK )

) SS:

COUNTY OF NEW YORK )

ROBERT L. AUGENBLICK, being first duly sworn, deposes  
and says as follows:

1. I am President and General Counsel of the Investment Company Institute (herein referred to as the "Institute"), a plaintiff in this suit. I submit this affidavit in support of plaintiffs' motion for summary judgment in this action.

2. The Institute is an unincorporated association, having its principal place of business in the City, County, and State of New York. At the time of the commencement of this action, Dorsey Richardson was the President thereof; on October 6, 1966, affiant became President thereof. The Institute is a national association, having as its members, as of October 1,

1966, 177 open-end management investment companies and their 88 investment advisers and 78 principal underwriters. Together, the open-end management investment companies which are members of the Institute have assets of about \$32 billion, representing about 93 percent of the assets of all such companies in the United States, and have approximately 4 million shareholders.

3. Open-end management investment companies, as defined by the Investment Company Act of 1940, 15 U.S.C. §§ 80a-3 - 80a-4, are commonly referred to as "mutual funds". Virtually all mutual funds are engaged in the business of continuously issuing securities which represent an undivided interest in the fund's assets. Most mutual funds are corporate in form and the securities issued by them usually consist of capital stock. There are, however, a number of mutual funds in a variety of noncorporate forms, and the securities issued by some of them are variously denominated as "beneficial interests," "participating agreements," and the like. The proceeds from the sale of the securities issued by the fund are invested in a portfolio of securities of various kinds, in accordance with the stated investment policy of the particular fund. Some funds invest primarily in securities offering current income; others concentrate on long-term growth securities; still others specialize in particular industries or classes of securities; and many offer various combinations of objectives. The shareholder in a mutual fund is entitled at any time to redeem his interest, usually at net asset value, or in a few cases upon payment of a

modest charge. To facilitate this redemption privilege, as well as to establish a price at which new shares are being offered, the value of a share in a mutual fund is calculated regularly, typically twice daily, on the basis of the market value of the securities held by the fund. This continuous process of redemption would restrict and contract the size of the mutual fund unless it continuously issued and offered new securities for sale. Virtually no shares in mutual funds are traded from one investor to another, and there is no significant trading market for such shares. In almost all cases, shareholders in mutual funds desiring to obtain cash for their shares redeem them with the issuing company.

4. The securities issued by most mutual funds are offered to the public at a price which includes a sales commission (or sales load). There are, in addition, a significant number of mutual funds whose shares are sold with no sales commission charged. Such funds are frequently called "no-load" mutual funds. The mutual fund members of the Institute include 23 "no-load" funds.

5. The activities of mutual funds are under the control of a board of directors or board of trustees. Directors and trustees are elected annually by the vote of a majority of the fund's outstanding voting securities. Mutual funds usually contract with an outside investment adviser for investment advice and other management services, and with a principal underwriter for the distribution of the fund's shares, pursuant to the statutory pattern established by the Investment Company Act of 1940, 15 U.S.C. § 80a-15, et seq.

6. The investment adviser of a mutual fund furnishes advice to the fund with respect to its investment portfolio and the securities it should buy, hold, and sell. In some cases, the adviser itself is empowered to purchase and sell securities for the fund. Typically, the investment adviser also furnishes other supervisory and administrative services to the mutual fund. The investment adviser receives compensation for its services, usually in the form of a fee based on the total value of the assets being managed. Plaintiffs, Investors Diversified Services, Inc., Investors Management Company, Inc., and Wellington Management Company, all serve as investment advisers to a number of mutual funds, and each of said plaintiffs and all the mutual funds they serve are members of the Institute.

7. The principal underwriter of a mutual fund is engaged in the business of selling and distributing the securities issued by the fund to the investing public through brokers or dealers, or directly through the underwriters' own salesmen, or both. The principal underwriter either purchases the securities issued by the fund for resale or acts as agent for the fund in distributing the securities. Except in the case of a no-load fund, the principal underwriter receives a fee for its services, usually in the form of a portion of the sales commission included in the selling price of the shares issued by the mutual fund. Plaintiffs, Investors Diversified Services, Inc., Hugh W. Long & Company, Inc., and Wellington Management Company, all serve as principal underwriters for a number of mutual funds, and all those plaintiffs and the mutual funds they serve are members of the Institute.

8. Each of the 177 mutual fund members of the Institute is registered with the Securities and Exchange Commission under the Investment Company Act of 1940. The activities of the mutual funds and their relationships with affiliated persons and others are all subject to detailed supervision and regulation under that Act. The investment advisers and principal underwriters for each mutual fund, including the investment advisers and principal underwriters who are plaintiffs herein, perform their services for the mutual funds they serve pursuant to contracts, the terms, execution and continuation of which are subject to the provisions of Section 15 of the Investment Company Act, 15 U.S.C. § 80a-15.

9. The securities issued by each of the mutual fund members of the Institute are registered with the Securities and Exchange Commission pursuant to the Securities Act of 1933. All such securities are offered to the investing public by means of a prospectus which is initially filed with the Securities and Exchange Commission under the Securities Act as part of the registration statement for the securities to which the prospectus relates. See, for example, the following prospectuses for the sale of mutual fund shares:

Prospectus dated January 5, 1966 for Investors Mutual, Inc., one of the mutual funds for which plaintiff, Investors Diversified Services, Inc., acts as principal underwriter.

\*/  
(Exhibit 1).

\*/ This Exhibit and all other Exhibits herein referred to are annexed to the Affidavit of James F. Fitzpatrick, filed in support of plaintiffs' motion for summary judgment in this action.



Prospectus dated April 1, 1966 for Fundamental Investors, Inc., one of the mutual funds for which plaintiff, Hugh W. Long & Company, Inc., acts as principal underwriter. (Exhibit 2).

Prospectus dated April 1, 1966, supplemented November 1, 1966, for Wellington Fund, Inc., one of the mutual funds for which plaintiff, Wellington Management Company, acts as principal underwriter. (Exhibit 3).

10. Since the passage of the Investment Company Act of 1940, the mutual fund business has enjoyed a period of substantial growth and active competition. During that period, the number of mutual fund members of the Institute has grown from 68 to 177, as of October 1, 1966; the number of shareholder accounts in mutual funds has grown from about 296,000 to 7,500,000; and the total investment by the public in such funds has grown from approximately \$448,000,000 to \$32,000,000,000. A broad variety of investment plans are available to the investing public, and the many mutual funds operating throughout the country are in vigorous competition. As of October 1, 1966, it is estimated that at least 1 million, or about 25 percent, of the estimated 4 million mutual fund shareholders had holdings of \$10,000 or more.

11. Prior to 1962, the statutory authority to regulate the fiduciary activities of national banks was vested in the Federal Reserve Board. Under its regulations and rulings, national banks were not permitted to operate a commingled fund as a general investment medium. In September 1962, authority

to regulate fiduciary activities was shifted to the Comptroller of the Currency, 76 Stat. 668, 12 U.S.C. § 92a. Shortly thereafter, the Comptroller issued a notice of proposed rule-making, concerning the promulgation of regulations which would permit banks to maintain collective investment funds as investment media and to offer shares in such funds to the public. In response to the Comptroller's invitation, the Institute submitted a statement opposing these regulations. On April 5, 1963, the Comptroller issued revised Regulation 9 effecting the proposed change. The regulation was amended by the Comptroller on January 31, 1964. 12 C.F.R. § 9.18.

12. On May 10, 1965, the Comptroller approved the plan submitted by First National City Bank of New York ("First National City") for the establishment and operation of a collective investment fund, called the Commingled Investment Account, under Regulation 9. On August 25, 1965, the Comptroller issued a statement that Regulation 9 would be amended to provide general authorization for other banks to establish funds similar to the fund created by First National City. At the time of the approval of First National City's plan, and to date, no state bank subject to the laws of the state of New York has operated a collective investment fund as a general investment medium.

13. On April 20, 1966, First National City registered its Commingled Investment Account with the Securities and Exchange Commission pursuant to the Investment Company Act as an open-end management investment company. On the same date,

First National City filed a registration statement with the Securities and Exchange Commission pursuant to the Securities Act of 1933 for the purpose of registering the securities to be issued by its Commingled Investment Account. The registration statement concerning those securities became effective on June 14, 1966. Since then First National City has offered and sold to the investing public the securities issued by the Commingled Investment Account by means of the prospectus for First National City's Commingled Investment Account, dated June 14, 1966. (Exhibit 12).

14. By his promulgation of Regulation 9 and his approval of the plan submitted by First National City for its Commingled Investment Account, the Comptroller has authorized national banks to enter the securities business in direct unlawful competition with the mutual fund members of the Institute and in direct unlawful competition with their investment advisers and principal underwriters.

15. The Glass-Steagall Act of 1933 contained a number of provisions designed to separate commercial banking from the securities business, Ch. 89, 48 Stat. 162 (1933). The Federal Reserve Board has statutory authority to administer Section 32 of the Glass-Steagall Act, 48 Stat. 194 (1933), as amended, 49 Stat. 709 (1935), 12 U.S.C. § 78 (1964), which prohibits an officer, director, or employee of a national bank or other bank which is a member of the Federal Reserve System from serving in a similar capacity in a company primarily engaged, among

other things, in issuing stocks, bonds, or similar securities. The Federal Reserve Board has ruled on a number of occasions that mutual funds are primarily engaged in issuing securities within the meaning of Section 32 of the Glass-Steagall Act. Accordingly, the Board has on several occasions rejected requests by the Institute and by some mutual funds that bank officers or directors be permitted to serve on the board of directors of mutual funds.

16. The bank-sponsored collective investment funds, which are permitted under Comptroller's Regulation 9, are virtually identical in function and structure to mutual funds. The SEC has recognized this and has insisted that all bank mutual funds must be registered under the Investment Company Act and that all participations in such funds must be registered as securities under the Securities Act of 1933. The Comptroller has sanctioned and encouraged such funds and such securities to be so registered with the Securities and Exchange Commission.

17. The collective investment funds authorized by Regulation 9, and exemplified by First National City's Commingled Investment Account, are identical to existing mutual funds in the following respects, among others: they are registered as open-end management investment companies with the Securities and Exchange Commission under the Investment Company Act; participations in them are registered as securities under the Securities Act of 1933; they are in the business of continuously issuing such securities; the proceeds of the sale of such securities

are brought together and invested in the portfolio of securities owned by the fund.

18. The rights acquired by an investor in a bank-sponsored collective investment fund such as First National City's Commingled Investment Account are identical to the rights of an investor in a mutual fund in the following respects: the investor has an undivided interest in the fund's portfolio of securities; the investor has the right to redeem his securities in the fund at any time, i.e., to withdraw his share of the undivided assets in the fund in cash based on net asset values; investors annually elect a board of directors to oversee the affairs of the fund and, specifically, to decide whether the contract of the investment adviser should be renewed.

19. The potential customers who will be offered participations in a bank-sponsored collective investment fund, including the potential investors in First National City's fund, are all potential customers for shares in the mutual funds issued by the mutual fund members and sold by the principal underwriter members, of the plaintiff Institute.

20. The large-scale entry of banks into the mutual fund business would have an adverse effect on what is now an efficient and highly competitive industry. Total sales volume for the year 1965 for all Institute members was approximately \$4.4 billion. The distribution of these sales was such that no single mutual fund member of the Institute sold as much as 9 percent of the total. In New York State during the same year,

Institute members sold approximately \$567 million of mutual fund shares.

21. On information and belief, First National City has approximately 160 branches in New York City and the surrounding areas in New York State. Each such branch is an outlet for the securities issued by the Bank's Commingled Investment Account. Virtually every branch bank officer will be, in effect, a mutual fund salesman.

22. On information and belief, First National City is soliciting sales of participations in its Commingled Investment Account in New York State and elsewhere, in competition with members of the Institute, by mailing the Prospectus for its Commingled Investment Account (Exhibit 12) with a solicitation letter (Exhibit 14) to its customers.

23. Despite the prohibition contained in the Glass-Steagall Act of 1933, 48 Stat. 162, as amended, codified in 12 U.S.C., other large banks in New York City and elsewhere will inevitably enter the mutual fund business, following the lead of First National City, unless the relief requested by plaintiffs is granted.

24. Institute members, in their attempts to sell the shares issued by the mutual fund members of the Institute, will be faced with increasing direct and unlawful competition from banks -- competition which cannot fairly be met in the marketplace since banks are in a position to use lists of their



depositors and other customers to solicit sales. Such depositors and customers will daily be present in large numbers on the bank's premises to conduct banking business. Entry by banks into the mutual fund industry will, I believe, create unlawful competition and will result in substantial economic injury to the lawful business of the members of the Institute.

Robert L. Augenblick  
Robert L. Augenblick

Subscribed and sworn to before me this.

23<sup>rd</sup> day of December, 1966.

Anne E. Doherty  
Notary Public

My commission expires: March 30, 1967

ANNE E. DOHERTY  
Notary Public - State of New York  
No. 24-0979575  
Qualified in Kings County  
Cert. Filed in New York County 1-1-67  
Commission Expires March 30, 1967

IN THE UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF COLUMBIA

INVESTMENT COMPANY INSTITUTE, et al.,

Plaintiffs

v.

JAMES J. SAXON,

Defendant

Civil Action  
No. 1083-66

AFFIDAVIT OF JOHN R. HAIRE IN SUPPORT  
OF PLAINTIFFS' MOTION FOR SUMMARY JUDGMENT

STATE OF NEW JERSEY )  
                                  ) SS.  
COUNTY OF UNION )

John R. Haire, being first duly sworn, deposes and  
says as follows:

1. I am a director of Investors Management Company,  
Inc., and a director of Hugh W. Long and Company, Inc., both  
plaintiffs in this action. I submit this affidavit in support  
of plaintiffs' motion for summary judgment herein.

2. Plaintiff Investors Management Company is incorpo-  
rated under the laws of the State of New Jersey and has its  
office and principal place of business at Elizabeth, New  
Jersey. Plaintiff Hugh W. Long & Company is incorporated  
under the laws of the State of Nevada and has its office and  
principal place of business at Elizabeth, New Jersey. Pursuant

to the requirements of Section 15 of the Investment Company Act of 1940, 15 U.S.C. § 80a-15, Investors Management Company acts as investment adviser, and Hugh W. Long & Company acts as principal underwriter, to the following open-end investment companies (hereinafter called "mutual funds"): Fundamental Investors, Inc.; Diversified Investment Fund, Inc.; and Diversified Growth Stock Fund, Inc. Investors Management Company, Hugh W. Long & Company, and each of the said mutual funds are members of the plaintiff Investment Company Institute.

3. Each of the said mutual funds is engaged in the business of continuously issuing and offering to the public redeemable securities which represent an undivided interest in the portfolio of securities owned by the fund. The activities of these funds are conducted, and their relationships to their principal underwriter and investment adviser are established, pursuant to the requirements of the Investment Company Act of 1940 under the jurisdiction of the Securities and Exchange Commission.

4. There are more than 250,000 investors in the said mutual funds. Securities of each fund are offered for sale and sold throughout the nation by independent broker-dealers who purchase such shares from Hugh W. Long and Company as principal underwriter. As of June 30, 1966, the total assets of the three funds were approximately \$1,510,000,000. During the first nine months of 1965, about 77.4 percent of the dollar volume of new sales were in amounts of \$10,000 or more.

5. In 1965, shares of these three mutual funds having a total combined value of approximately \$15,486,000 were sold in New York State. During the first six months of 1966, such total sales were approximately \$8,900,000 in New York State.

6. As is set forth in detail in the Affidavit of Robert L. Augenblick, filed simultaneously herewith, the bank-operated collective investment funds authorized by Regulation 9 of the Comptroller of the Currency, and exemplified by the Collective Investment Account of First National City Bank of New York, are virtually identical in function and structure to mutual funds of the type which Investors Management Company and Hugh W. Long & Company serve. By permitting national banks to establish and operate such funds, and permitting such banks and their employees to offer and sell the securities issued by them, the Comptroller has permitted banks to enter the securities business in direct, unlawful competition with existing mutual funds and their investment advisers and principal underwriters, including Investors Management Company, Hugh W. Long & Company, and the mutual funds they serve. Moreover, by authorizing First National City Bank of New York to create its Collective Investment Account, and to offer and sell securities issued by such Account in the City and State of New York, the Comptroller has permitted that Bank and its Account to engage in direct, unlawful competition in that City and State with Investors Management Company, Hugh W. Long & Company, and the mutual funds they serve. The direct, unlawful competition authorized by the Comptroller's regulations and subsequent

rulings will adversely affect the business of Investors  
Management Company, and Hugh W. Long & Company, in the City  
and State of New York and throughout the country.

*John R. Haire*

John R. Haire

Subscribed and sworn to before me this 14th day of November  
1966.

*Florence G. Dwyer*

Notary Public

My commission expires

FLORENCE G. DWYER

COMMISSION EXPIRES JULY 1971

IN THE UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF COLUMBIA

-----  
INVESTMENT COMPANY INSTITUTE, et al.,

Plaintiffs,

v.

JAMES J. SAXON,

Defendant.  
-----

Civil Action  
No. 1083-66

AFFIDAVIT OF JOSEPH E. WELCH IN SUPPORT  
OF PLAINTIFFS' MOTION FOR SUMMARY JUDGMENT

STATE OF PENNSYLVANIA     )  
COUNTY OF PHILADELPHIA   ) SS:

Joseph E. Welch, being first duly sworn, deposes and says as follows:

1. I am President of Wellington Management Company, a plaintiff in this action. On October 31, 1966 Wellington Company, Inc., which was also a plaintiff in this Action, was merged into Wellington Management Company. I submit this affidavit in support of plaintiffs' motion for summary judgment herein.

2. Plaintiff Wellington Management Company is incorporated under the laws of the State of Delaware and has its office and principal place of business at Philadelphia, Pennsylvania. Pursuant to the requirements of Section 15 of the Investment Company Act of 1940, 54 Stat. 812, 15 U.S.C. Sec. 80a-15, Wellington Management Company acts as investment adviser and principal underwriter, to the following open-end investment companies (hereinafter called "mutual funds"): Wellington Fund, Inc. and Windsor Fund. Wellington Management Company and each of the said mutual funds are members of the plaintiff Investment Company Institute.



3. Each of the said mutual funds is engaged in the business of continuously issuing and offering to the public redeemable securities which represent an undivided interest in the portfolio of securities owned by the fund. The activities of these funds are conducted, and their relationships to their principal underwriter and investment adviser are established, pursuant to the requirements of the Investment Company Act of 1940 under the jurisdiction of the Securities and Exchange Commission.

4. There are more than 375,000 investors, residing throughout the United States, in the said mutual funds. Securities of each fund are offered for sale and sold throughout the nation. As of June 30, 1966, the total assets of the two mutual funds were approximately \$2,017,000,000. During February, 1966, about 56.5 percent of the dollar volume of new sales were in amounts of \$10,000 or more.

5. In 1965, shares of the said mutual funds having a total combined value of approximately \$24,990,000 were sold in New York State. During the first six months of 1966, such total sales were approximately \$8,691,000 in New York State.

6. As is set forth in detail in the Affidavit of Robert L. Augenblick, filed simultaneously herewith, the bank-operated collective investment funds authorized by Regulation 9 of the Comptroller of the Currency, and exemplified by the Collective Investment Account of First National City Bank of New York, are virtually identical in function and structure to the Wellington Fund and Windsor Fund. By permitting national banks to establish and operate such funds and permitting such banks and their employees to offer and sell the securities issued by them, the Comptroller has permitted banks to enter the securities business in direct unlawful competition with existing mutual funds and their investment advisers and principal underwriters, including Wellington Management Company, and the mutual funds it serves. Moreover, by authorizing First National City Bank of New York to create its Collective Investment Account, and to offer and sell securities issued by such Account in the City and State of New York, the Comptroller has permitted that Bank and its Account

to engage in direct unlawful competition in that City and State with Wellington Management Company and the mutual funds it serves. The direct unlawful competition authorized by the Comptroller's regulations and his subsequent rulings will adversely affect the business of Wellington Management Company in the City and State of New York and throughout the country.

Joseph E. Welch  
Joseph E. Welch

Subscribed and sworn to before me  
this 11<sup>th</sup> day of November, 1966.

Margaret E. Pabian  
Notary Public

My commission expires March 1, 1967  
By Commission Expires March 1, 1967

IN THE UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF COLUMBIA

-----x  
INVESTMENT COMPANY INSTITUTE, et al, :

Plaintiffs, :

v. :

JAMES J. SAXON, :

Defendant. :

Civil Action  
No. 1032-66

-----x  
AFFIDAVIT OF STUART F. SILLOWAY IN  
SUPPORT OF PLAINTIFFS' MOTION  
FOR SUMMARY JUDGMENT

STATE OF MINNESOTA )

) SS:

COUNTY OF HENNEPIN)

STUART F. SILLOWAY, being first duly sworn, deposes and  
says as follows:

1. I am President and a director of Investors Diversified  
Services, Inc. ("IDS"), a plaintiff in this action. I submit this  
affidavit in support of plaintiffs' motion for summary judgment  
herein.

2. IDS is incorporated under the laws of the State of Minnesota  
and has its office and principal place of business at Minneapolis,  
Minnesota. It acts as investment adviser and principal underwriter,  
pursuant to the requirements of Section 15 of the Investment Company  
Act of 1940, 15 U.S.C. § 80a-15, to the following open-end investment  
companies (hereinafter called "mutual funds"): Investors Mutual, Inc;  
Investors Stock Fund, Inc.; Investors Variable Payment Fund, Inc.;  
and Investors Selective Fund, Inc. IDS and each of the said mutual  
funds are members of the plaintiff Investment Company Institute.

3. Each of the said mutual funds is engaged in the business of continuously issuing and offering to the public redeemable securities which represent an undivided interest in the portfolio of securities owned by the fund. The activities of these mutual funds are conducted, and their relationships to IDS as principal underwriter and investment adviser are established, pursuant to the requirements of the Investment Company Act under the jurisdiction of the Securities and Exchange Commission.

4. There are more than three-quarter million investors, residing throughout the United States, in the mutual funds served by IDS. Securities of each fund are offered for sale and sold throughout the nation. As of June 30, 1966, the total assets of the four mutual funds were approximately \$5,173,000,000. During 1965 about 46.3 percent of the dollar volume from new customers were in amounts of \$10,000 or more.

5. In 1965, shares of the four mutual funds served by IDS having a total combined value of approximately \$24,187,000 were sold by IDS in New York State. During the first six months of 1966, such sales totaled approximately \$18,218,000 in New York State.

6. As is set forth in detail in the Affidavit of Robert L. Augenblick, filed simultaneously herewith, the bank-operated collective investment funds authorized by Regulation 9 of the Comptroller of the Currency, and exemplified by the Collective Investment Account of First National City Bank of New York, are virtually identical in function and structure to mutual funds of the type which IDS serves and the shares of which IDS sells. By permitting national banks to establish and operate such funds, and permitting such banks and their employees to offer and sell the securities issued by them, the Comptroller has

permitted banks to enter the securities business in direct unlawful competition with existing mutual funds and their investment advisers and principal underwriters, including IDS and the four mutual funds it serves. Furthermore, by specifically authorizing First National City Bank of New York to establish and operate its Collective Investment Account and to offer and sell securities issued by such Account in the City and State of New York, the Comptroller has permitted that Bank to engage in direct unlawful competition in that City and State with IDS and the four mutual funds it serves. The direct unlawful competition authorized by the challenged regulation and subsequent actions of the Comptroller will adversely affect the sale by IDS of the shares issued by the four mutual funds it serves in the City and State of New York and throughout the country.

Stuart F. Siloway  
Stuart F. Siloway

Subscribed and sworn to before me this

18 day of NOVEMBER, 1966.

Arthur E. Reardon  
Notary Public

Notary Public  
New York County, N.Y.  
My Comm. Expires 12-25-1968

IN THE UNITED STATES DISTRICT COURT

INVESTMENT COMPANY INSTITUTE, et al.,

## Plaintiffs

Civil Action  
No. 1083-66

v.

**JAMES J. SAXON,**

Defendant .

AFFIDAVIT OF ADRON P. TRANTUM IN SUPPORT  
OF PLAINTIFFS' MOTION FOR SUMMARY JUDGMENT

STATE OF NEW JERSEY )  
 ) SS:  
COUNTY OF UNION )

ADRON P. TRANTUM, being first duly sworn, deposes and says  
as follows:

1. I am Senior Vice President of Investors Management Company, Inc., a plaintiff in the above-entitled action. I submit this affidavit in support of plaintiffs' motion for summary judgment herein.

2. Investors Management Company throughout its history has had several changes in its corporate name and has been reincorporated on several occasions. I have been employed by the company under its various names since September 18, 1929.

3. On June 16, 1934, the date on which the provisions of the Glass-Steagall Act, 48 Stat. 184, 12 U.S.C. § 78,



became effective, plaintiff Investors Management Company, Inc. was named Irving Investors Management Company, Inc., and was a wholly-owned subsidiary of Irving Trust Company, a bank chartered by the State of New York and a member of the Federal Reserve System. Irving Investors Management Company was then engaged in the business of providing services to investment companies. Among its activities, it served as underwriter and investment adviser to Irving Investors Fund C, Inc.

4. Irving Investors Fund C, Inc. was a corporation of a type similar to that generally classified today as an open-end investment company or mutual fund. It issued to investors shares representing an undivided interest in a pool of securities. The investor could redeem such shares at any time based on the net asset value of his shares at the time of redemption. A substantial number of the shares in this fund had been offered and sold to the customers of Irving Trust Company by the bank and its officers.

5. In October, 1934, Irving Trust Company divested itself of the capital stock of its wholly-owned subsidiary, Irving Investors Management Company, and thereby also disposed of its entire interest in Irving Investors Fund C. Thereafter, Irving Trust Company had no further connection with the distribution of the shares of that fund or with the management thereof. In a letter dated October 5, 1934, Robert C. Effinger, President of Irving Investors Management Company, announced to the participants in several funds, including Irving Investors Fund C, that this decision of Irving Trust Company had been made "(i)n consequence of certain provisions of the Banking Act of 1933 and recent rulings of the Federal Reserve Board made pursuant thereto . . .". A true copy of said letter is attached hereto as Appendix A.

6. After divestiture by Irving Trust Company, the corporate name of Irving Investors Management Company Inc. was changed on several occasions and the company was reincorporated several times. Its present name is Investors Management Company, Inc., and it is now incorporated under the laws of the State of New Jersey.

7. On December 17, 1934, the name of Irving Investors Fund C. Inc. was changed to Investors Fund C. Inc. In 1954 Investors Fund C. Inc. was merged into Fundamental Investors, Inc., one of the mutual funds for which Investors Management Company, Inc. now serves as investment adviser.

Adron P. Trantum  
Adron P. Trantum

Subscribed and sworn to before me this 15th day of November, 1966.

Notary Public

My commission expires \_\_\_\_\_

IN THE UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF COLUMBIA

INVESTMENT COMPANY INSTITUTE, et al.,

Plaintiff

v.

JAMES J. SAXON,

Defendant

Civil Action  
No. 1083-66

AFFIDAVIT OF JAMES F. FITZPATRICK  
IN SUPPORT OF PLAINTIFFS' MOTION  
FOR SUMMARY JUDGMENT

THE DISTRICT OF )  
COLUMBIA ) SS:


JAMES F. FITZPATRICK, being first duly sworn, deposes and  
says as follows:

That annexed to this affidavit are true and correct copies  
of the following documents:

- Exhibit 1. Prospectus for Investors Mutual, Inc., dated  
January 5, 1966.
- Exhibit 2. Prospectus for Fundamental Investors, Inc.,  
dated April 1, 1966.


- Exhibit 3. Prospectus for Wellington Fund, Inc., dated April 1, 1966, supplemented November 1, 1966.
- Exhibit 4. Statement of the Comptroller of the Currency, dated August 25, 1965.
- Exhibit 5. Notification of Registration filed by Commingled Investment Account of First National City Bank with the Securities and Exchange Commission pursuant to the Investment Company Act of 1940, including Exhibit No. 1 thereto.
- Exhibit 6. Registration Statement of Commingled Investment Account of First National City Bank (Form N-8B-1), filed with the Securities and Exchange Commission April 20, 1966, which incorporated exhibits, including the documents designated Exhibits 7, 8, 9, and 10, described immediately hereafter.
- Exhibit 7. Specimen of Participant's Certificate issued upon admission to First National City's Account (filed as Exhibit 4(a) to the Account's Registration Statement under the Investment Company Act and as Exhibit C-1 to the Account's Registration Statement under the Securities Act of 1933, Form S-5).
- Exhibit 8. Specimen of Participant's Certificate upon partial termination of participation in First National City's Account (filed as Exhibit 4(b) to the Account's Registration Statement under the Investment Company Act and as Exhibit C-2 to the Account's Registration Statement under the Securities Act of 1933, Form S-5).
- Exhibit 9. Management agreement between the Account and First National City Bank (filed as Exhibit 5 to Account's Registration Statement under the Investment Company Act and as Exhibit D to the Account's Registration Statement under the Securities Act of 1933, Form S-5).
- Exhibit 10. Underwriting agreement between Account and First National City Bank (filed as Exhibit 6 of the Account's Registration Statement under the Investment Company Act and as Exhibit E to the Account's Registration Statement under the Securities Act of 1933, Form S-5).

- Exhibit 11. Amendment No. 1 to Registration Statement, under the Investment Company Act, of Commingled Investment Account of First National City Bank, filed May 23, 1966.
- Exhibit 12. Prospectus for Commingled Investment Account of First National City Bank, dated June 14, 1966.
- Exhibit 13. Notice of Annual Meeting of Participants and Proxy Statement for Commingled Investment Account of First National City Bank, dated October 14, 1966.
- Exhibit 14. Solicitation letter of First National City Bank for participation in Commingled Investment Account, undated.

  
James F. Fitzpatrick

Subscribed and sworn to before me this 25th day of

November, 1966.

  
Notary Public

My commission expires: April 14, 1969

Exhibit 1  
Affidavit of  
James F. Fitzpatrick  
Civ. Act. No. 1083-66

FILED

NOV 30 1966

ROBERT M. STEARNS, CLERK



PROSPECTUS / January 5, 1966

Investors Mutual, Inc. is a mutual investment fund, with net assets now in excess of \$2,900,000,000, invested in a prudently selected, diversified portfolio of securities, balanced among bonds, common stocks and preferred stocks.

Shares of the Company are distributed by Investors Diversified Services, Inc., organizer and investment manager of the Company. This firm, founded in 1894, now manages over \$5,500,000,000 in market value of investment securities for investment companies whose securities are held by more than 900,000 investors.

The shares are offered to the public at their net asset value, ordinarily determined daily, plus a maximum sales charge of 8% of the public offering price. The sales charge is reduced on a graduated scale for sales involving large amounts as more fully described in numbered section 14 of this prospectus. Asset value varies with the fluctuations in the market value of the securities owned by the Company.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

SERIES AA



## TABLE OF CONTENTS

*References are to numbered sections unless otherwise noted*

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Certain Information Concerning Investors Diversified Services, Inc. . . . .	20
Condensed Financial Information . . . . .	3
Custodian . . . . .	13
Directors and Principal Officers . . . . .	19
Diversification . . . . .	4, 6(b), 11
Dividends . . . . .	3, 5, 9
Dividends, Reinvestment of . . . . .	7(a), 9
Financial Statements . . . . .	Pages 24 thru 46
Illustrations of Assumed Investment Programs . . . . .	10
Investment Policies . . . . .	4, 6, 11
Investment Restrictions . . . . .	11
Management Fees . . . . .	2, 18
Marketability . . . . .	7(b), 16
Miscellaneous . . . . .	22
Portfolio, Management of . . . . .	2, 4, 6(b), 11, 18
Portfolio, Securities in . . . . .	Pages 29 thru 46
Remuneration and Fees . . . . .	15, 18
Sales Charge . . . . .	14, Front Page
Shares, Distribution of . . . . .	14, 15
Shares, Offering Price of . . . . .	14, Front Page
Shares, Redemption of . . . . .	7(b), 16
Systematic Investment Plan . . . . .	8
Systematic Pay-Out Options . . . . .	17
Taxation . . . . .	14(b), 22(g)
Transfer of Investments . . . . .	7(c), 12

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Investors Mutual, Inc. does not authorize or assume responsibility for any information or representations regarding Investors Mutual, Inc. other than those contained in this prospectus, or in any supplement thereto, or in any supplemental sales material authorized by the Company for use in connection with the sale of its stock.

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# INVESTORS MUTUAL, INC.

MINNEAPOLIS

MINNESOTA

## About the Prospectus

This Prospectus has been prepared to give you the material facts about Investors Mutual, Inc., so that you can intelligently decide whether or not an investment in this Company is the kind which will best fit your investment needs.

In these pages you will find facts and figures concerning the Company; its operating results; its investment restrictions and policies; and the rights and privileges of its shareholders. **WE URGE YOU TO READ IT CAREFULLY.**

### 1 Investors Mutual—What is it?

Investors Mutual, Inc. is a company which invests its money primarily in the securities of American enterprises. In other words, it is an investment company or, as it is sometimes known in investment terms, a "mutual fund." Its purpose is to provide persons having varying amounts of money to invest, with a way to combine their investment funds and, through the medium of one security, share in the business of a large number of companies within dif-

ferent industries.

Because it invests not only in the common stock of such companies but also in preferred stocks and bonds, it is known as a "balanced mutual fund."

These investments are *not* fixed. As explained later, they are chosen, supervised and changed on the recommendation of Investors Diversified Services, Inc. This company is, by contract, the investment manager of the fund.

### 2 Investment Management

Investors Diversified Services, Inc., the Fund's organizer, sponsor and investment manager, was established in 1894. It manages investments for five open-end investment companies, for its own account, and for the accounts of its subsidiary companies. It has a large staff of investment specialists with many years of experience in investment management. It maintains extensive facilities for financial and economic research and analysis. Analysts trained in specialized fields (such as public utilities, railroads, oils,

chemicals, etc.) are continually studying and evaluating the companies in which investments are made or contemplated. Visits to production and operating centers of these companies and "on the spot" talks with their managers are part of the system upon which the analysts base their reports and recommendations.

Shareholders of Investors Mutual, Inc. have the benefit of these comprehensive management services. Whether a person has enough money to buy a few or many securities, he very probably does not have

the time, experience and knowledge necessary to decide properly which securities are best to buy, when to buy or sell them, and at what prices. Seasoned investment management helps to solve this perplexing problem by supplying the services of an organization of trained and skilled specialists who make investments their life work and devote full time to dealing with the many aspects involved in the investment of money. By pooling the funds of many thousands of investors throughout the nation, the Company is able to provide the average investor, on a reasonable basis, with services and facilities which at one time only wealthy investors and large estates could afford. These services are paid for by a management fee to Investors Diversified Services, Inc. as set forth in section 18.

#### *Allocation of Brokerage on Fund Portfolio Transactions*

Investors Diversified Services, Inc., the Company's investment manager, now manages over \$5,500,000,000 in market value of investment securities for the investment companies whose securities it distributes, including Investors Mutual, Inc. This large scale operation permits the investment manager, in connection with portfolio transactions of the fund companies handled through brokers, to obtain the maximum in the way of the services and facilities offered by leading investment brokerage houses. The investment manager normally places purchase and sale orders for most New York Stock Exchange common stocks through one member house (Scheffmeyer & Co.) which receives a fixed fee payable out of aggregate commissions. This firm distributes brokerage commissions to a large number of member firms (currently around 50 firms), in a fashion designed to obtain the best price and execution, as directed by the investment manager in a manner which seeks to give recognition to those member firms which are capable of rendering services and which, over time, do provide services to the investment manager over and above the bare brokerage function although this is not an absolute standard since some business may be distributed solely on the basis of

the best business judgment of the investment manager. The distribution of such brokerage business is determined from time to time by the investment manager and reviewed by the Board of Directors of the Fund. The distribution is made with a view to obtaining the maximum usefulness from the firms handling portfolio transactions. Such services may be in terms of contributions made by such firms' research staffs in supplementing, aiding, or otherwise helping the research activities of the investment manager, referrals of direct placements, wire services, quotations, statistical and economic data and reports, and other services which large brokerage houses can and do render to important buyers and sellers of securities without extra charge. The only compensation paid these brokers is the prescribed brokerage commissions for all such stock exchange transactions which would have to be paid by the funds in any event. Brokerage commissions paid by the Fund totaled \$2,319,940 for the fiscal year ended September 30, 1965.

The Fund's investment manager has organized a subsidiary corporation, IDS Securities Corporation ("IDSS") for the purpose of engaging in the brokerage business. Effective August 31, 1965 IDSS was admitted as a member firm of the Pacific Coast Stock Exchange. As a member of that exchange, IDSS receives brokerage from transactions executed on that exchange. Use of the services of IDSS by the Fund must be consistent with the objective of obtaining best price and execution. The Fund's investment manager has confirmed to the Fund that an amount equal to any net profit which IDSS may realize from transactions attributable to the Fund from all sources will be credited to the Fund, not less often than annually, as a reduction of the amounts otherwise due to Investors Diversified Services, Inc. under the investment advisory and services agreement between it and the Fund. A net profit of \$55,053 attributable to transactions of the Fund was realized during the three months ended November 30, 1965. No representation is made that any future benefit which may accrue to the Fund from such reduction will be significant from the standpoint of any individual Fund investor.

### 3 Condensed Financial Information

#### PER SHARE INCOME AND CAPITAL CHANGES (for a share outstanding throughout the years) (Adjusted for 2-for-1 stock split on April 26, 1956)

Fiscal years ended September 30	Income and Expense									
	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965
Income . . . . .	\$40¼	\$41	\$41¾	\$41	\$42¼	\$43	\$44½	\$44¼	\$45¾	\$47½
Operating expenses . . . . .	.05	.04¾	.04¾	.05½	.05¼	.06	.06	.05½	.05¼	.04¾
Net income . . . . .	.35¾	.36¼	.37	.35½	.37	.37	.38½	.38¾	.40¾	.42¾
Dividends from net income . . . . .	.35¾	.36½	.36½	.35½	.36¾	.37¼	.38¼	.39	.40¾	.42¾
Capital Changes										
Net asset value at beginning of period . . . . .	\$9.08	\$9.11	\$8.55	\$9.72	\$10.18	\$10.00	\$11.58	\$9.95	\$11.35	\$12.22
Net realized and unrealized profits (or losses) on securities . . . . .	.18½	(.48)	1.28¾	.68¾	(.10½)	1.74¾	(1.28¼)	1.60¼	1.11¼	.32¾
Distributions from realized capital gains . . . . .	.15½	.07¾	.12¼	.22¾	.07¾	.16½	.35	.30	.24¼	.28¾
Net asset value at end of period . . . .	9.11	8.55	9.72	10.18	10.00	11.58	9.95	11.35	12.22	12.26
Ratio of operating expenses to average net assets . . . . .	0.54%	0.54%	0.54%	0.53%	0.53%	0.54%	0.52%	0.50%	0.44%	0.38%
Ratio of net income to average net assets . . . . .	3.87%	4.03%	4.13%	3.40%	3.62%	3.34%	3.45%	3.53%	3.44%	3.50%
Number of shares outstanding at end of period . . . . . (000 omitted)	104,715	116,590	125,301	138,565	150,448	159,255	172,740	191,987	214,535	239,927

### 4 Investment Objectives and Policies

Objectives sought by the Company are: (1) to provide a reasonable return on its shareholders' investments; (2) to preserve the value of these investments; (3) to aim at long-term appreciation possibilities on an investment rather than a speculative basis.

Because virtually all securities fluctuate in market price and corporate earnings and dividends vary from year to year, it is impossible for the Company to assure its shareholders that these objectives can be realized at all times. However, to attain them, the management exerts every effort to maintain a *balanced portfolio* by varying the proportions of bonds, preferred stocks and common stocks which are appraised in the light of security values and long-term economic trends. Under certain conditions a major

portion of the Company's assets may be invested in equity securities such as common stocks. And there may be times when the Company will assume a defensive position by investing a large part in securities such as fixed interest-bearing bonds and preferred stocks with established dividend rates. The present intention of the management is that generally the Company will have not more than 75% of its investments in common stocks and not less than 25% in bonds, preferred stocks and short term notes.

At September 30, 1965, investments, taken at market value, were distributed as follows: short term notes 2.30%, bonds 27.19%, preferred stocks 6.70% and common stocks 63.81%.

Investments are not concentrated in any one in-

dustry or group of industries but are varied according to what is judged advantageous under different economic conditions. The portfolio is *diversified* by investments in a cross section of business and industry and frequently numerous companies within an industry, in an effort to reflect a representative pattern of American enterprise. Thus this "balance" of investments, plus the broad diversification, tends to reduce the risk of market fluctuation and to provide a reasonably reliable source of income for shareholders. The Company does not intend to act as underwriter, invest in real estate, purchase and sell commodities or commodity contracts, make loans to other persons (except by the purchase and sale of

securities), invest in companies for the purpose of exercising control or management, or borrow money except for extraordinary or emergency purposes. The policies stated in this last sentence may not be changed without a vote of the shareholders. It plans to select securities for its investment portfolio which in the opinion of the management may profitably be retained on a long-term basis. However, in order to preserve the full benefit of managerial judgment, the Company reserves freedom of action with respect to portfolio turnover and may sell any security regardless of the length of time it may have been held. The Company does not engage in short term trading as such.

## 5 Dividends and Capital Gains Distributions

The Company was organized in January, 1940 and since December 31st of that year it has paid a quarterly dividend to its shareholders. On September 29, 1965 the Company declared its 100th consecutive quarterly dividend. Its income has varied in amount and as a result the amount of dividends paid to its shareholders has varied. See section 3.

The Company presently intends to continue its policy of distributing, as dividends to shareholders in each year, substantially all of its investment income less operating expenses. Dividend checks are ordinarily mailed to reach shareholders about the 14th of January, April, July and October. These dividends are payable to shareholders of record on or about the last business day of the previous month. The fiscal year-end dividend will be augmented by distributions from realized capital gains when available.

A regulated investment company which meets certain diversification of assets and source of income requirements (prescribed by the internal revenue code) is accorded conduit or "pass through" treatment if it distributes to its shareholders at least 90 per cent of its taxable income (exclusive of net long-term capital gain); i.e., it will be taxed only on the portion of such income which is retained. A

shareholder receiving a distribution of such income from a regulated investment company treats it as a receipt of ordinary income in the computation of his gross income for federal tax purposes and such shareholder is eligible to include it in computing the dividend received exclusion and the intercorporate dividend deduction.

As to capital gains distributions, to the extent that a regulated investment company distributes the excess of net long-term capital gain over its net short-term capital loss, such capital gain is not taxable to the company but is taxable to the shareholder as a long-term capital gain. Such capital gains distributions do not qualify for the computation of the dividend received exclusion or the intercorporate dividend deduction.

Approximately 24% of the net asset value of the shares of Investors Mutual, Inc., as of September 30, 1965 represents unrealized appreciation. Net gain on the sale of securities when realized and distributed (actually or constructively) is taxable for federal income tax purposes as capital gain. If the net asset value of shares were reduced below a shareholder's cost by such a distribution it would be a return of investment though taxable as stated above.



## 6 Features of the Investment

### (a) NATURE OF INVESTMENT

Investors Mutual, Inc. is a mutual, open-end, diversified, management investment company owned by its shareholders. Each share represents a pro-rata interest in the assets of the Company. The Company has only one class of stock. All shares are transferable, have equal rights and are redeemable as explained in section 16. As of September 30, 1965, there were 239,926,645 shares outstanding owned by 429,985 shareholders.

### (b) DIVERSIFICATION

Diversification is considered a basic virtue of an investment company because it tends to reduce inherent market risks by spreading investments among many carefully selected securities. In operating the Company as a "balanced" fund, and in line with its current appraisals of economic conditions, the management intends to invest its assets in varied proportions of bonds, preferred stocks and common stocks, with not more than 75% in common stocks.

Within such general classification of types of securities, the Company intends to diversify its investments in the following manner:

- (1) Diversification as to types of enterprises.
- (2) Diversification as to individual companies within these enterprises.
- (3) Geographical diversification.

The list of investments starting on page 29 illustrates how this policy of diversification is currently applied by the Company.

### (c) FLUCTUATION OF ASSET VALUE

The asset value of the shares varies with the daily market value of the securities owned by the Company and may be more or less than the investor's cost. As explained in sections 14 and 16, the shares are ordinarily redeemable at asset value, and are sold at asset value plus a maximum distribution charge of 8% of offering price.

## 7 Privileges Extended to Shareholders

### (a) DIVIDENDS AND CAPITAL GAINS REINVESTED

The Company at the present time offers its shareholders the privilege of reinvesting the dividends or capital gains distributions they receive on their shares in additional shares of the Company, without paying another sales charge. See section 9.

### (b) MARKETABILITY

Under ordinary circumstances, shares may be redeemed for cash at any time. Any shareholder may turn in his shares to the Company and receive the asset value per share (which may be more or less than his cost) calculated at the close of business on the first full business day upon which the Company receives the holder's endorsed stock certificate and

written request for redemption of his shares. This privilege (and certain limitations thereon) is more fully explained in section 16.

### (c) INVESTMENTS IN FUNDS INTERCHANGEABLE

Perhaps sometime in the future a shareholder may want to change his investment in Investors Mutual, Inc. to shares in another type of fund. Under the present policy of the Company, as discussed later in section 12, he is privileged to transfer his investment at net asset value to investments in shares of Investors Stock Fund, Inc., Investors Selective Fund, Inc. or Investors Variable Payment Fund, Inc., and he does not have to pay a sales charge for this service.



## 8 Systematic Investment Plan

Provision is made for a simple means of accumulating shares systematically through the Company's "Systematic Investment Plan." Under this plan, the investor makes an initial cash investment, followed at regular intervals by further payments in convenient amounts. With each additional payment, additional shares, the number of which is determined by the then public offering price, are purchased for his account. The investor may decide whether to make these purchases monthly, quarterly or at any other stated interval and may discontinue payments at any time without penalty. All dividends and capital gains distributions received on shares may be reinvested without sales charge towards the accumulation of more shares (see section 9). The Fund reserves the right to discontinue or alter the plan at any time.

This plan of purchase is simply a designation by the applicant of the times at which he intends to make further investments in shares of Investors Mutual, Inc. He is not obligated or required to make any single purchase pursuant to his expressed intention. By adopting a plan, however, he establishes for himself a program by which he proposes to acquire at stated intervals as many shares of the Fund as each payment when made will then purchase at the then public offering price.

The plan contemplates the regular investment at fixed periods of an equal number of dollars in the shares of the Fund. Since the shares fluctuate in value this investment of an equal number of dollars has the effect of causing the investor to buy more shares when prices are low and fewer shares when they are high. The investor will, of course, incur a loss if he discontinues his plan and redeems his

shares when the market value of his shares is less than his cost thereof. Accordingly, in selecting a plan he should take into consideration his financial ability to continue the plan through periods of low security market price levels. He must also realize that the plan of itself does not assure a profit or protect against loss of value in declining markets.

The plan is not an option, warrant or right to purchase additional shares and each payment for investment under the declared plan is a separate application subject in each instance to acceptance or rejection by the issuer. As shares are acquired under the plan, the purchaser becomes entitled to all rights of a shareholder upon the shares he has purchased as of the date his original payment and each subsequent payment are received and accepted by the Company. As each payment is made and accepted, the Company gives the shareholder the proper credit for all of his shares or fractional shares so acquired upon its books of record. No certificate will be issued until the registered shareholder asks for it or the Company at its own election issues a certificate. In either case, the Company may include in such certificate the entire number of shares owned by the shareholder. Shares purchased pursuant to the plan are identical with all other shares of the Company (whether or not a certificate has been issued for them) and have all rights, including dividend, liquidation and redemption rights. The shares are fully paid outstanding shares or fractional shares. All or any part of the shares acquired under the plan, whether or not a certificate has been issued therefor, may be redeemed at any time by the owner as explained in section 16.

## 9 Dividend Reinvestment Plan

Any shareholder may, by means of his written authorization, appoint Investors Diversified Services, Inc. (IDS) as his agent to receive cash dividends paid by the Company on his shares and to reinvest them for him in more shares of the Company at their asset value. No additional charge is made for this service.

His authorization for this agency becomes effective as soon as it is received by IDS at its offices in Minneapolis, Minnesota. Only those dividends declared after receipt of this authorization will be reinvested. Distributions of securities profits may be reinvested separately at net asset value (see section 7(a)).

He may cancel his authorization at any time by notifying IDS, in writing, that he no longer wants it to act as his dividend reinvestment agent. Upon receipt of his letter, his agreement will be ended, unless the notice is received between a dividend record date and a dividend payment date. In that case, the termination will become effective immediately following the next dividend payment date after the notification is received. IDS reserves the right to termi-

nate the agency at any time by written notice to the shareholder.

Any dividends or distributions received by an investor shortly after a purchase of shares by him will have the effect of reducing the net asset value of his shares by the amount of the dividends or distributions. Furthermore, such dividends or distributions, although in effect a return of capital, are subject to taxes.

# **ILLUSTRATION OF AN ASSUMED INVESTMENT OF \$10,000 IN INVESTORS MUTUAL, INC.** with Capital Gains Distributions Reinvested in Additional Shares

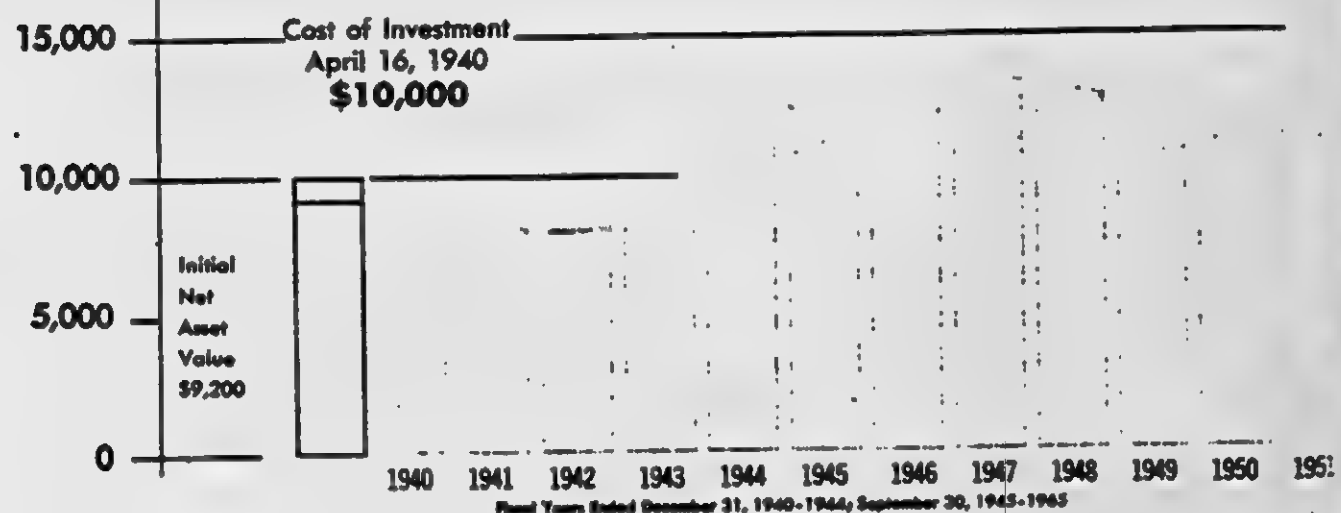
The chart below covers the period from April 16, 1940 (inception of the fund) to September 30, 1965.

## **RECORD OF INCOME**

Dividends Paid from Investment Income  
(Taken in Cash and Not Reinvested)



## **RECORD OF PRINCIPAL**



VALUE OF SHARES initially  
acquired through  
investment of \$10,000 . . .

VALUE OF SHARES received  
as reinvested capital gains  
distributions (cumulative)

TOTAL VALUE . . . . .

	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951
Initial Value	\$8,739	\$7,874	\$7,994	\$9,375	\$10,542	\$11,563	\$11,392	\$11,081	\$10,461	\$10,687	\$11,906	\$12,839
Reinvested Gains	75	161	215	646	1,100	1,486	2,084	2,191	2,272	2,405	2,821	3,399
Total Value	\$8,814	\$8,035	\$8,209	\$10,021	\$11,642	\$13,049	\$13,476	\$13,272	\$12,733	\$13,092	\$14,727	\$16,238

Initial net asset value is the amount received by the fund after deducting from the cost of the investment the sales commission as described in the prospectus.

No adjustment has been made for any income taxes payable by stockholders on reinvested capital gains distributions. The dollar amounts of capital gains distributions reinvested in additional shares were: 1940—\$74; 1941—\$93; 1942—\$51; 1943—\$74.

This period was one of generally rising common stock prices. The results shown should not be considered as a representation of the dividend income or capital gain or loss which may be realized from an investment made in the fund today.

Total Dividends  
from Investment  
Income

**\$18,936**

\$721 \$745 \$759 \$793 \$880 \$914 \$923 \$909 \$961 \$982 \$1,023 \$1,080 \$1,144 \$1,232

Total Value  
of Investment  
Sept. 30, 1965  
**\$36,037**

Value of  
Reinvested Capital  
Gains Distributions  
**\$13,484**

Cumulative Value of  
Capital Gains Distributions  
Reinvested in Shares



Value of  
Original Shares  
**\$22,553**

1952 1953 1954 1955 1956 1957 1958 1959 1960 1961 1962 1963 1964 1965

\$2,946 \$12,391 \$14,976 \$16,702 \$16,759 \$15,734 \$17,885 \$18,731 \$18,404 \$21,300 \$18,315 \$20,890 \$22,476 \$22,553

3,683 3,708 4,727 5,658 6,053 5,882 6,992 7,906 7,970 9,659 9,242 11,092 12,615 13,484  
\$6,629 \$16,099 \$19,703 \$22,360 \$22,812 \$21,616 \$24,877 \$26,637 \$26,374 \$30,959 \$27,557 \$31,982 \$35,091 \$36,037

—\$402; 1944—\$368; 1945—\$276; 1946—\$623; 1947—\$163; 1948—\$204; 1949—\$84; 1950—\$141; 1951—\$358; 1952—  
\$256; 1953—\$183; 1954—\$245; 1955—\$387; 1956—\$382; 1957—\$194; 1958—\$310; 1959—\$582; 1960—\$203; 1961—  
\$435; 1962—\$936; 1963—\$554; 1964—\$680; 1965—\$826. Total \$9,010. If capital gains distributions had not been re-  
invested, total dividends from investment income for the period would have been \$14,500, total capital gains distribution  
\$6,856, and total value of investment \$22,553 at September 30, 1965.

**ILLUSTRATION OF AN ASSUMED INVESTMENT OF \$10,000 IN INVESTORS MUTUAL, INC.**  
with both Dividends from Investment Income and Capital Gains Distributions Reinvested in Shares

The table below covers the period from April 16, 1940 (inception of the fund) to September 30, 1965. This period was one of generally rising common stock prices. The results shown should not be considered as a representation of the dividend income or capital gain or loss which may be realized from an investment made in the fund today.

Fiscal Year End*	COST OF SHARES			VALUE OF SHARES				NUMBER OF SHARES ACQUIRED** (To nearest full share amount)				
	Amount of Dividends from Investment Income Reinvested Annually	Cumulative Cost of Shares Purchased through Reinvestment of Income Dividends	Total Cost Including Reinvested Income Dividends	(A) Initially Acquired	(B) Acquired through Reinvestment of Capital Gains Distributions (cumulative)	Sub-Total	(C) Purchased through Reinvestment of Income Dividends (cumulative)	Total Value	(A) Shares Initially Acquired	(B) Acquired through Reinvestment of Capital Gains Distributions (cumulative)	(C) Purchased through Reinvestment of Income Dividends (cumulative)	Total Shares Held (cumulative)
1940	\$ 294	\$ 294	\$10,294	\$ 8,739	\$ 75	\$ 8,814	\$ 301	\$ 9,115	1,840	16	63	1,919
1941	505	799	10,799	7,874	168	8,042	751	8,793	1,840	39	176	2,055
1942	477	1,276	11,276	7,994	229	8,223	1,253	9,476	1,840	53	288	2,181
1943	481	1,757	11,757	9,375	732	10,107	1,943	12,050	1,840	144	381	2,365
1944	520	2,277	12,277	10,542	1,282	11,824	2,720	14,544	1,840	224	475	2,539
1945	372	2,649	12,649	11,563	1,760	13,323	3,364	16,687	1,840	280	535	2,655
1946	591	3,240	13,240	11,392	2,545	13,937	3,848	17,785	1,840	411	621	2,872
1947	699	3,939	13,939	11,081	2,698	13,779	4,431	18,210	1,840	448	736	3,024
1948	792	4,731	14,731	10,461	2,835	13,296	4,950	18,246	1,840	499	870	3,209
1949	940	5,671	15,671	10,687	3,021	13,708	6,013	19,721	1,840	520	1,035	3,395
1950	958	6,629	16,629	11,906	3,585	15,491	7,680	23,171	1,840	554	1,187	3,581
1951	1,157	7,786	17,786	12,833	4,447	17,280	9,448	26,728	1,840	637	1,355	3,832
1952	1,207	8,993	18,993	12,946	4,920	17,866	10,728	28,594	1,840	699	1,525	4,064
1953	1,302	10,295	20,295	12,391	5,034	17,425	11,522	28,947	1,840	748	1,711	4,299
1954	1,386	11,681	21,681	14,976	6,538	21,514	15,369	36,883	1,840	803	1,888	4,531
1955	1,505	13,186	23,186	16,702	8,034	24,736	18,653	43,389	1,840	885	2,055	4,780
1956	1,733	14,919	24,919	16,759	8,812	25,571	20,394	45,965	1,840	968	2,239	5,047
1957	1,869	16,788	26,788	15,734	8,685	24,419	20,921	45,340	1,840	1,016	2,446	5,302
1958	1,966	18,754	28,754	17,885	10,534	28,419	25,873	54,292	1,840	1,084	2,662	5,586
1959	2,008	20,762	30,762	18,731	12,336	31,067	29,020	60,087	1,840	1,212	2,850	5,902
1960	2,198	22,960	32,960	18,404	12,590	30,994	30,657	61,651	1,840	1,259	3,065	6,164
1961	2,325	25,285	35,285	21,300	15,614	36,914	37,872	74,786	1,840	1,349	3,271	6,460
1962	2,502	27,787	37,787	18,315	15,745	34,060	34,862	68,922	1,840	1,582	3,502	6,924
1963	2,737	30,524	40,524	20,890	19,373	40,263	42,548	82,811	1,840	1,706	3,748	7,294
1964	3,002	33,526	43,526	22,476	22,649	45,125	48,832	93,957	1,840	1,854	3,998	7,692
1965	3,341	36,867	46,867	22,553	24,996	47,549	52,348	99,897	1,840	2,039	4,271	8,150

The total cost figure represents the initial cost of \$10,000, which includes a sales commission of 8% as described in the prospectus, plus the cumulative amount of income dividends reinvested without sales charge. The dollar amounts of capital gains distributions, reinvested in shares, also without sales commission were: 1940—\$74; 1941—\$100; 1942—\$58; 1943—\$474; 1944—\$451; 1945—\$349; 1946—\$814; 1947—\$222; 1948—\$288; 1949—\$125; 1950—\$219; 1951—\$583; 1952—\$436; 1953—\$325; 1954—\$454; 1955—\$745; 1956—\$761; 1957—\$403; 1958—\$669; 1959—\$1,303; 1960—\$470; 1961—\$1,042; 1962—\$2,319; 1963—\$1,422; 1964—\$1,803; 1965—\$2,268. Total—\$18,177.

No adjustment has been made for any income taxes payable by shareholders on capital gains distributions and income dividends reinvested in shares.

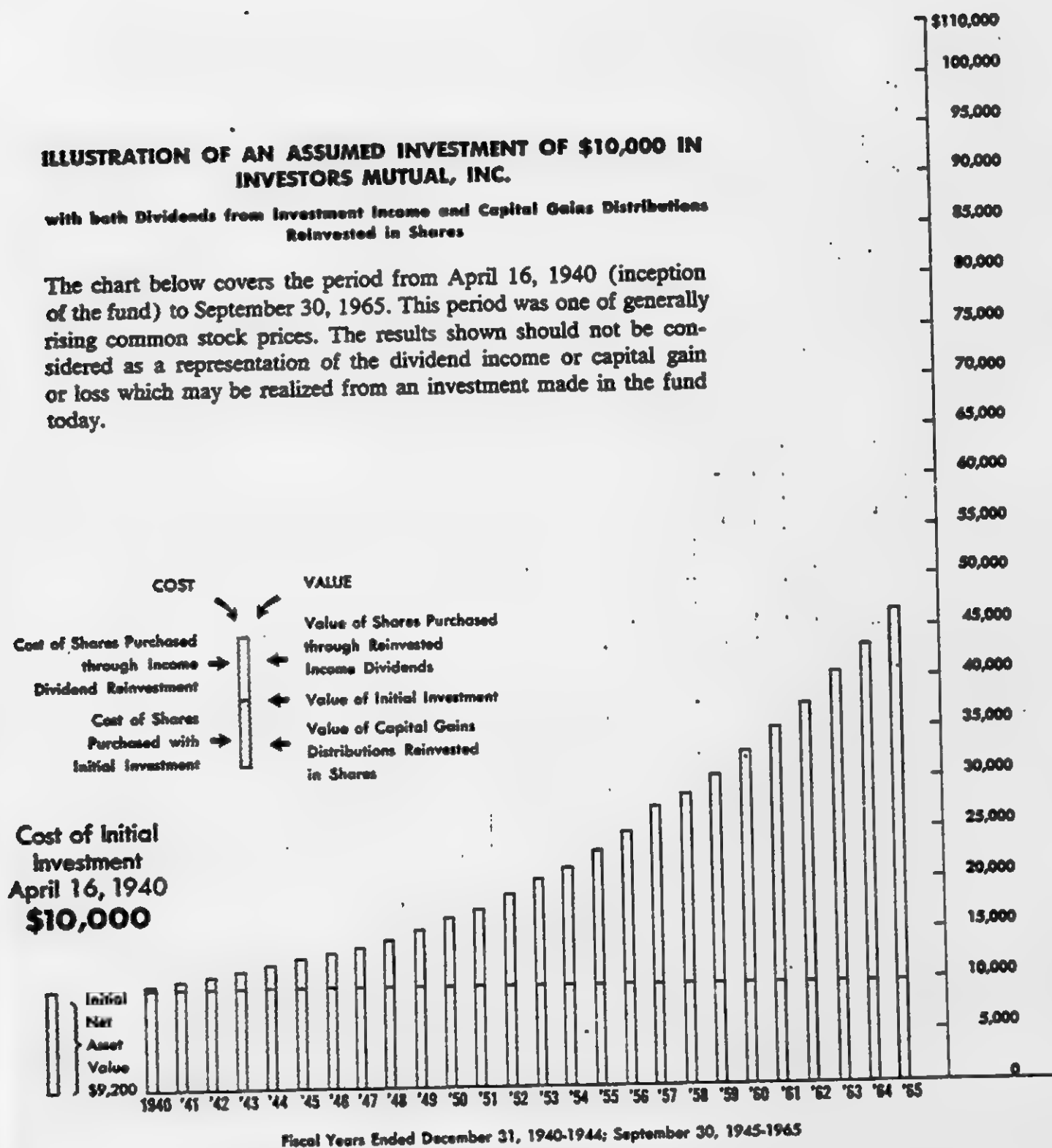
\*Fiscal Years ended December 31, 1940-45; Fiscal Years ended September 30, 1945-1965.

\*\*Adjusted for 2-for-1 stock split 4/26/56.

# ILLUSTRATION OF AN ASSUMED INVESTMENT OF \$10,000 IN INVESTORS MUTUAL, INC.

with both Dividends from Investment Income and Capital Gains Distributions Reinvested in Shares

The chart below covers the period from April 16, 1940 (inception of the fund) to September 30, 1965. This period was one of generally rising common stock prices. The results shown should not be considered as a representation of the dividend income or capital gain or loss which may be realized from an investment made in the fund today.



Initial net asset value is the amount received by the fund after deducting from the cost of the investment the sales commission of 8% as described in the prospectus. Income dividends and capital gains distributions were assumed to have been reinvested in additional shares at net asset value. There is no sales commission charged for such reinvestment. No adjustment has been made for any income taxes payable by shareholders on capital gains distributions and income dividends reinvested in shares.

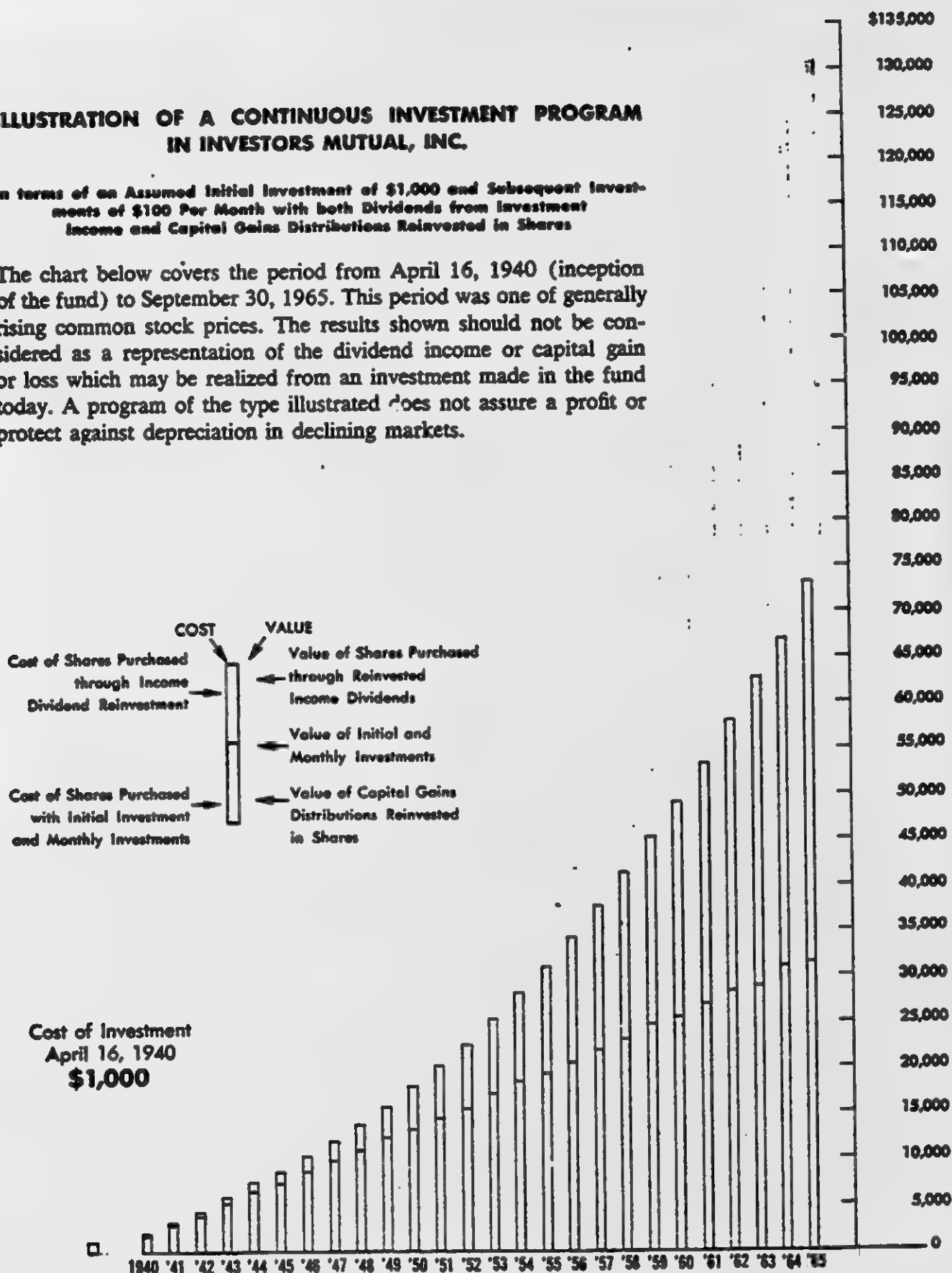
**NOTE:** See table on preceding page for dollar amounts represented by this chart.



## ILLUSTRATION OF A CONTINUOUS INVESTMENT PROGRAM IN INVESTORS MUTUAL, INC.

In terms of an Assumed Initial Investment of \$1,000 and Subsequent Investments of \$100 Per Month with both Dividends from Investment Income and Capital Gains Distributions Reinvested in Shares

The chart below covers the period from April 16, 1940 (inception of the fund) to September 30, 1965. This period was one of generally rising common stock prices. The results shown should not be considered as a representation of the dividend income or capital gain or loss which may be realized from an investment made in the fund today. A program of the type illustrated does not assure a profit or protect against depreciation in declining markets.



Total cost for each year represents the initial investment of \$1,000 plus the cumulative total of monthly investments of \$100 per month plus the cumulative amount of income dividends reinvested. The cost for shares purchased with initial and monthly investments includes sales commissions starting at 8% and graduated downward as described in section 15 of the prospectus. No sales commission is charged for reinvestment of any income dividends or capital gains distributions. No adjustment has been made for any income taxes payable by shareholders on capital gains distributions and income dividends reinvested in shares.

**NOTE:** See table on following page for dollar amounts represented by this chart.

# **ILLUSTRATION OF A CONTINUOUS INVESTMENT PROGRAM IN INVESTORS MUTUAL, INC.**

in terms of an Assumed Initial Investment of \$1,000 and Subsequent Investments of \$100 Per Month with both Dividends from Investment Income and Capital Gains Distributions Reinvested in Shares

The table below covers the period from April 16, 1940 (inception of the fund) to September 30, 1965. This period was one of generally rising common stock prices. The results shown should not be considered as a representation of the dividend income or capital gain or loss which may be realized from an investment made in the fund today. A program of the type illustrated does not assure a profit or protect against depreciation in declining markets.

PRECIPITATION IN DECLINING MARKET															
COST OF SHARES						VALUE OF SHARES						NUMBER OF SHARES ACQUIRED** (To nearest full share amount)			
	Amount of Dividends from Investment Income Reinvested Annually	Cumulative Cost of Shares Purchased through Reinvestment of Income Dividends	Total of Initial and Monthly Investments	Total Cost Including Reinvested Income Dividends	Average Cumulative Per Share Cost**	(A) Acquired through Initial and Monthly Investments	(B) Acquired through Reinvestment of Capital Gains Distributions (cumulative)	Sub-Total	(C) Purchased through Reinvestment of Income Dividends (cumulative)	Total Value	Year-end Per Share Value**	(A) Acquired through Initial and Monthly Investments (cumulative)	(B) Acquired through Reinvestment of Capital Gains Distributions (cumulative)	(C) Purchased through Reinvestment of Income Dividends (cumulative)	Total Shares Held (cumulative)
1940	\$ 55	\$ 55	\$ 1,800	\$ 1,855	\$5.15	\$ 1,641	\$ 14	\$ 1,655	\$ 56	\$ 1,711	\$4.75	345	3	12	360
1941	137	192	3,000	3,192	5.01	2,503	44	2,547	181	2,728	4.28	585	10	42	637
1942	188	380	4,200	4,580	4.82	3,685	70	3,755	377	4,132	4.34	848	16	87	951
1943	241	621	5,400	6,021	4.77	5,440	319	5,759	679	6,438	5.10	1,067	63	133	1,263
1944	306	927	6,600	7,527	4.80	7,277	636	7,913	1,079	8,992	5.73	1,270	111	188	1,569
1945	244	1,171	7,500	8,671	4.86	8,845	932	9,777	1,433	11,210	6.28	1,408	148	228	1,784
1946	419	1,590	8,700	10,290	4.90	9,696	1,511	11,207	1,790	12,997	6.19	1,566	244	289	2,099
1947	538	2,128	9,900	12,028	5.02	10,503	1,646	12,149	2,271	14,420	6.02	1,744	273	377	2,394
1948	658	2,786	11,100	13,886	5.08	10,966	1,799	12,765	2,781	15,546	5.69	1,929	316	489	2,734
1949	838	3,624	12,300	15,924	5.14	12,340	1,952	14,292	3,694	17,986	5.81	2,125	336	636	3,097
1950	906	4,530	13,500	18,030	5.22	14,903	2,386	17,289	5,044	22,333	6.47	2,303	369	779	3,451
1951	1,150	5,680	14,700	20,380	5.27	17,209	3,160	20,369	6,599	26,968	6.97	2,468	453	946	3,867
1952	1,250	6,930	15,900	22,830	5.35	18,473	3,644	22,117	7,896	30,013	7.04	2,626	518	1,122	4,266
1953	1,399	8,329	17,100	25,429	5.44	18,749	3,841	22,590	8,905	31,495	6.73	2,784	571	1,322	4,677
1954	1,541	9,870	18,300	28,170	5.54	23,890	5,152	29,042	12,366	41,408	8.14	2,935	633	1,519	5,087
1955	1,716	11,586	19,500	31,086	5.65	27,803	6,599	34,402	15,517	49,919	9.08	3,063	727	1,710	5,500
1956	2,023	13,609	20,700	34,309	5.78	28,988	7,504	36,492	17,527	54,019	9.11	3,183	824	1,924	5,931
1957	2,226	15,835	21,900	37,735	5.93	28,265	7,539	35,804	18,568	54,372	8.55	3,305	882	2,171	6,358
1958	2,387	18,222	23,100	41,322	6.05	33,361	9,379	42,740	23,647	66,387	9.72	3,432	965	2,433	6,830
1959	2,479	20,701	24,300	45,001	6.14	36,040	11,441	47,481	27,139	74,620	10.18	3,540	1,124	2,666	7,330
1960	2,756	23,457	25,500	48,957	6.30	36,527	11,833	48,360	29,354	77,714	10.00	3,652	1,183	2,935	7,770
1961	2,956	26,413	26,700	53,113	6.44	43,485	15,027	58,512	37,012	95,524	11.58	3,757	1,298	3,197	8,252
1962	3,221	29,634	27,900	57,534	6.43	38,403	15,919	54,322	34,782	89,104	9.95	3,858	1,600	3,494	8,952
1963	3,565	33,199	29,100	62,299	6.53	44,994	20,008	65,002	43,300	108,302	11.35	3,963	1,762	3,814	9,539
1964	3,951	37,150	30,300	67,450	6.64	49,593	23,912	73,505	50,608	124,113	12.22	4,060	1,958	4,143	10,161
1965	4,440	41,590	31,500	73,090	6.73	50,904	27,017	77,921	55,231	133,152	12.26	4,153	2,204	4,505	10,863

The total cost figures represent the initial investment of \$1,000 plus the cumulative total of monthly investments of \$100 per month plus the cumulative amount of income dividends reinvested. The cost for shares purchased with initial and monthly investments includes sales commissions starting at 8% and graduated downward as described in section 15 of the prospectus. No sales commission is charged for reinvestment of any income dividends or capital gains distributions. Year end asset values include the value of shares purchased by reinvestment of the following dollar amounts of capital gains distributions: 1940—\$14; 1941—\$31; 1942—\$25; 1943—\$242; 1944—\$272; 1945—\$232; 1946—\$595; 1947—\$176; 1948—\$246; 1949—\$114; 1950—\$211; 1951—\$589; 1952—\$457; 1953—\$354; 1954—\$510; 1955—\$856; 1956—\$895; 1957—\$483; 1958—\$818; 1959—\$1,618; 1960—\$592; 1961—\$1,332; 1962—\$2,998; 1963—\$1,859; 1964—\$2,382; 1965—\$3,023. Total—\$20,924.

No adjustment has been made for any income taxes payable by shareholders on capital gains distributions and income dividends reinvested in shares.

\*Fiscal Years ended December 31, 1940-45; Fiscal Years ended September 30, 1945-1965.  
\*\*Adjusted for 2-for-1 stock split 4/26/56.

## 11 Investment Restrictions

The Company observes certain investment restrictions which may not be changed without stockholder action and which provide among other things that the Company:

(1) Shall not purchase securities on margin or sell short;

(2) Shall not invest more than 5% of the gross assets of the Company taken at cost in securities of any one corporation;

(3) Shall not acquire more than 10% of the outstanding voting securities of any one corporation;

(4) Shall not borrow money or property except as a temporary measure for extraordinary or emergency purposes. The Certificate of Incorporation limits borrowing to 10% of the gross assets of the Company taken at cost;

(5) Shall not invest more than 5% of the total assets of the Company in securities of companies which have a record of less than three years' continuous operation, including predecessor companies;

(6) Shall not sell any of its shares at less than asset value;

(7) Shall not purchase securities of an investment trust or an investment company except in the open

market where there is no profit to a sponsor or dealer thereof other than customary brokerage;

(8) Shall not buy from or sell to any officer or director of Investors Diversified Services, Inc., or of the Company, any property or any security other than securities issued by the Company;

(9) Shall not make any loans to any of its officers or directors, or to any firm or syndicate of which any such officer or director is a member, or to any association or corporation of which any of the Company's officers or directors is an officer or a director, or in which the officers and directors of the Company directly or indirectly hold an aggregate interest of ten per cent (10%) or more; nor shall it loan any part of its assets to Investors Diversified Services, Inc., or any officer or director of that company;

(10) Shall not pledge, mortgage, or hypothecate the assets of the Company, taken at market value, to an extent greater than 15% of the gross assets of the Company taken at cost.

The Company is also subject to restrictions under the provisions of the Investment Company Act of 1940, particularly as to transactions with certain affiliated persons and underwriters, changing of certain investment policies recited in its registration statement, and the investment of its funds in certain specified types of companies.

## 12 Free Transfer of Investments

Investors Diversified Services, Inc. acts as the underwriter and investment manager for Investors Mutual, Inc., Investors Selective Fund, Inc., Investors Stock Fund, Inc., and Investors Variable Payment Fund, Inc. (these open-end, diversified investment companies being included in what is frequently referred to as the "Investors Group"). The shareholders of these companies (each of which differs from the others as to investment policies and purposes) have the privilege of transferring without sales charge their investments in shares of one or more of the companies into investments in shares of any of the other companies at respective net asset values. In the case of Investors Selective Fund, Inc., there are certain restrictions regarding transfers from that Fund as explained in the prospectus of that Company.

This privilege is not an option or right to purchase such securities but is a privilege permitted under the present policy of each of these companies. This policy may be discontinued, cancelled or changed by any of the respective companies at any time. The

privilege of transferring investments will be extended by the present managements of the respective companies in the absence of objection by regulatory authorities and provided shares of the respective companies are available and may lawfully be so issued in the jurisdiction in which any shareholder wishing to exercise this privilege resides, or until the privilege, in the opinion of the managements of the respective companies, imposes an unwarranted and unreasonable burden or hardship on the respective companies.

The transfer of investment is effected by authorizing the Company to redeem the shares and apply the proceeds to the purchase of shares of the other specified company. For federal income tax purposes of the shareholder redemption of the shares being transferred is ordinarily the equivalent of a sale of the shares. The company receiving the transferred investment will deliver a current prospectus and upon receiving a signed receipt therefor will issue its shares at asset value.

13

Portfolio securities and cash of the Company are deposited, under a custodian agreement, with the Bank of Delaware, of Wilmington, Delaware. This institution maintains custody of all securities and

14

(a) Shares of the Company are offered at their public offering price at the close of business [as defined in sub-section (j)] on the day upon which the application and payment are received at the principal place of business of the Company. If these are not received prior to the close of business, the shares are issued at the public offering price as of the close of business on the next succeeding full business day. If the day upon which the application and payment are received at the principal place of business of the Company is not a full business day, the price of the shares is computed as of the close of business on the next succeeding full business day.

(b) The asset value is computed as of the close of trading on the New York Stock Exchange in accordance with sound accounting practice and in the manner authorized by the Board of Directors, as follows: Securities listed on national securities exchanges are valued on the basis of the closing sale each day, or if no sale is made, at the mean of the closing bid and asked prices of such securities. Securities not listed or traded on a national securities exchange, but for which market quotations are readily available, are valued at market value as defined in the Certificate of Incorporation. Securities having no current market price are valued at fair value as determined in good faith by the Board of Directors. Dividends declared but not received are accrued on the ex-date of such dividends. Interest on bonds not traded "flat" is accrued daily. All cash and receivables and current payables are carried at their face value. The investment advisory and services fee, which comprises the entire management and operating expense of the Company, is accrued daily. No taxes are accrued on unrealized appreciation since the Company has elected to meet the requirements of Sections 851-855 of the federal Internal Revenue Code and intends to distribute to stockholders any capital gains realized. See section 22(g). From the total value of the assets are deducted the total outstanding liabilities (exclusive of capital stock and surplus accounts) including all reserves and estimated accrued expenses. The resulting net worth is divided by the number of shares outstanding to determine the asset value per share of capital stock.

cash of the Company so deposited but otherwise performs no managerial or policy-making functions for the Company.

(c) Computation of the public offering price of shares of capital stock of the Company is illustrated below:

Net assets at September 30, 1965	
as per Statement of Net Assets	
(Page 24) . . . . .	\$2,940,769,421
Divided by number of shares outstanding September 30, 1965	239,926,645
Asset value of a share of capital stock . . . . .	\$12.257
Plus 8% * of public offering price . . . . .	1.063
Public offering price	
[\$12.257 ÷ .92] . . . . .	<u>\$13.32</u>

\*Sales Charges are graduated as follows:

Amount of Application	Per Cent of Public Offering Price
To \$14,999 . . . . .	8
\$15,000 to \$19,999 . . . . .	7½
\$20,000 to \$24,999 . . . . .	7
\$25,000 to \$49,999 . . . . .	6
\$50,000 to \$99,999 . . . . .	4
\$100,000 to \$199,999 . . . . .	2½
\$200,000 to \$399,999 . . . . .	2
\$400,000 to \$699,999 . . . . .	1½
\$700,000 and over . . . . .	1

(d) The above graduated sales charges will apply on initial purchases in the amounts stated and also on any subsequent purchases where the aggregate investment of the same shareholder (and to the extent that such shares are still registered in his name) is \$15,000 or more; for example, if a shareholder had previously purchased and still held shares for which he had paid \$10,000 and made a subsequent purchase of \$6,000, the sales charge applicable to this latter pur-



chase would be 7½%. If such shareholder after his initial purchase (shares still held by him) had made an application for an additional \$11,000, bringing his aggregate investment to \$21,000, the sales charge on the latter purchase would be 7%. Shares held in the name of the spouse of the purchaser or in the name of a child of the purchaser under 21 years of age will be treated for purposes of this section as being registered in the name of the purchaser. Reinvested dividends and reinvested capital gains distributions (see sections 7 and 9) are included in determining the aggregate amount invested, although no sales charge is made for such reinvestment.

(e) The foregoing paragraph is applicable to a trustee or other fiduciary purchasing securities for a single trust estate or single fiduciary account (including a pension, profit-sharing, or other employee benefit trust created pursuant to a plan qualified under Section 401 of the Internal Revenue Code).

(f) Since Investors Diversified Services, Inc. is also the principal distributor for shares of Investors Stock Fund, Inc., Investors Selective Fund, Inc., Investors Variable Payment Fund, Inc. and Investors Inter-Continental Fund, Inc., the graduated scale of sales charges applicable in the manner stated above will apply to purchases by any of the persons enumerated in (d) or (e), above, of shares representing a combination of the five Funds or an addition to the aggregate holdings in those companies. For example, if an investor had purchased and still held shares of Investors Stock Fund, Inc. for which he paid \$15,000, and he made a purchase of shares of Investors Mutual, Inc. in an amount of \$6,000, the rate of sales charge applicable on this latter purchase would be 7%, as shown in the foregoing table. There is a different graduated scale of sales charges with respect to Investors Selective Fund, Inc.

(g) In addition, the reduced sales charges reflected under sub-section (c) are also applicable to the aggregate amount of purchases made by any of the persons enumerated above within a thirteen months period pursuant to a written statement of intention provided by the principal distributor, which includes provisions for a price adjustment depending upon the actual amount purchased within such period, provided that the purchases aggregate not less than \$50,000 and the investor still owns the shares at the end of the period. This is not an option, warrant or right to purchase additional shares and there is no penalty upon either party if the intention is not fulfilled.

As an example of how this reduced sales charge is applied, let us assume a purchaser submits, with his application for \$10,000, a written statement of

his intention to invest a total of \$50,000 at various times during the next succeeding thirteen months. On his initial investment of \$10,000 he would pay a sales charge of 8%. Thereafter he invests an additional \$10,000, bringing his total holdings to \$20,000. On the latter investment he would pay the sales charge applicable to holdings of \$20,000, or 7%. This method would continue on his other purchases during the period according to the schedule in sub-section (c), and with the last investment for the period he would receive an adjustment on his total purchases (still held by him) of \$50,000 for the difference between the respective sales charges paid and the 4% sales charge applicable on the \$50,000 aggregate investment. In other words, he would receive the same benefit of the 4% sales charge as though he had made the \$50,000 investment in a single purchase. Further, should it develop that his aggregate purchases during the period exceed the \$50,000 originally specified by an amount sufficient to qualify for an additional quantity discount (for example, should his actual purchases equal \$100,000), he would receive the same benefit as though he had specified the larger amount in his original statement of intention.

(h) Officers, directors, employees and sales representatives of the distributor or of the Company (and any trust, pension, profit-sharing or other benefit plan for such persons) may be permitted to purchase shares of the Company at net asset value, provided that such purchases are made upon the written assurance of the purchaser that the purchase is made for investment purposes and that shares so acquired will not be resold except through regular redemption by the Company.

(i) The bylaws of the Company provide that during any period in which the sale of shares issued by the Company shall be discontinued, the Board of Directors, in arriving at asset value for redemption purposes, may deduct from the value of the assets an amount equal to the brokerage commissions, transfer taxes and charges, if any, which would be payable on the sale of all securities in the portfolio of the Company if they were then being sold. The purpose of this provision is to distribute these charges over all outstanding shares if redemptions continue when no further sales are being made.

(j) A "full business day" is defined as a day with respect to which the New York Stock Exchange is open for business, and with respect to which the actual time of closing of such Exchange is that time which shall have been scheduled for such closing in advance of the opening of such Exchange. The "close of business" is defined as the time of closing of the New York Stock Exchange.

## 15 Distribution of Shares

Since the inception of the Company, its shares have been distributed exclusively by Investors Diversified Services, Inc. (IDS), of Minneapolis, Minnesota, pursuant to distribution agreements, the most recent of which is dated April 6, 1963 and reexecuted on October 31, 1963. Applications for shares of the Company are solicited by representatives of the distributor and submitted to the Company for acceptance or rejection.

IDS receives, in full payment for its services as distributor of the shares of Capital Stock of the Company, a fee equal to the difference between the amount received with each application and the asset value of the shares sold pursuant to such application, determined as stated in section 14 which also gives the present rate of the distribution fee. IDS received

during the fiscal year ended September 30, 1965, distribution fees amounting to \$20,276,818, out of which it allowed commissions of \$13,990,881 to its sales representatives and paid other expenses incidental to and in connection with the distribution and sale of the Company's Capital Stock.

During the period of the distribution agreement IDS will pay certain expenses in connection with the issuance and sale of the Company's securities, as specified by the agreement. The agreement provides that it shall continue in effect from year to year after April 6, 1963 provided such continuance is approved annually by the Board of Directors of the Company or by a vote of the majority of the outstanding shares of the Company. The agreement may be terminated by either party upon sixty days' written notice.

## 16 Redemption of Shares

(a) By express provision in the Company's Certificate of Incorporation, the registered holder of shares of the Company has the right to require the Company to redeem his shares. The redemption is accomplished by delivering to the Company at its principal place of business the stock certificate and a written request for redemption in form satisfactory to the Board of Directors. There is no redemption charge. Redemption of all or any part of shares for which a certificate has not been issued may be effected by a written request signed by the registered owner and directed to the Company.

(b) The redemption value of shares will be the asset value calculated as of the close of business (as defined in section 14(j)) on the day of receipt of the surrendered stock certificate or request at the Company's principal place of business. If the day of surrender of the certificate or request is not a full business day, then the asset value for the purposes of redemption will be calculated as of the close of business on the next succeeding full business day.

The method of calculating the asset value of shares is shown in section 14(b). For a change in the method of calculating redemption value if the sale of shares of the Company is discontinued, see section 14(i). The market value of securities in the Company's portfolio is subject to daily fluctuations, and the asset value will fluctuate accordingly. The amount a shareholder will receive on redemption of his shares may be more or less than the price paid therefor,

depending upon the market value of the portfolio securities at the time of redemption. The Company presently pays the redemption value in cash as soon as the amount is determined. Payment may not be deferred for a period exceeding seven days except during a period of emergency.

(c) During any period of emergency, the Board of Directors, in its discretion, may suspend the computation of asset value for the purpose of issuing or redeeming its shares, may suspend the acceptance of payments from the holders or owners of any of its securities for the acquisition of additional shares of the Company, and may suspend the obligation of the Company to redeem stock.

A period of emergency is defined to be:

(1) A period during which the New York Stock Exchange is closed for other than customary weekend or holiday closings, or during which trading on the New York Stock Exchange is restricted;

(2) A period during which disposal by the Company of securities owned by it is not reasonably practicable or during which it is not reasonably practicable for the Company fairly to determine the value of its net assets; or

(3) Such other periods as the Securities and Exchange Commission, pursuant to the provisions of the Investment Company Act of 1940, may by order declare as an emergency period or periods.



## 17 Systematic Pay-out Options

The Company makes available to its shareholders, without additional charge, periodic withdrawal or pay-out options designed to meet the differing objectives of shareholders. The cost of administering them is, pursuant to contract, borne by Investors Diversified Services, Inc. (IDS), the Fund's investment manager and distributor. These pay-out options contemplate the liquidation of the shareholder's holdings of Fund shares, and amounts received during the pay-out period will represent a combination of principal and income. Dividends and capital gains distributions made to the Fund's shareholders must be reinvested at net asset value in additional shares of the Fund by investors who select a systematic pay-out plan.

*Option 1.* Variable pay-out over a stated number of years by monthly, quarterly, or annual redemptions of shares—for the shareholder who desires to spread the pay-out of his holdings over a fixed number of years on a basis that will tend to be reasonably responsive to changes in the purchasing power of the dollar.

This option provides a method of periodic (monthly, quarterly, or annual) redemption of shareholdings, including shares, if any, created by reinvestment of dividends and realized capital gains during the pay-out period, over the number of years specified by the owner. It is designed to produce payments to the shareholder from period to period which will vary with the performance of the Fund (i.e., will vary with changes in the market value of the securities in the Fund portfolio). Obviously, it is impossible to give any assurances of the extent, if any, to which these variations will match changes in the purchasing power of the dollar. Under this option all shares will be redeemed and the shareholder's investment entirely liquidated by the end of the specified number of years.

The number of years and the payment frequency will be those specified by the shareholder at the time he elects the option. The number of shares redeemed to make each payment will be calculated by dividing the total shares then available (including such shares, if any, as have been added from time to time through reinvestment of dividends and realized capital gains during the pay-out period) by an appropriate variable payment factor. The only purpose served by the variable payment factor is to determine the number of shares to be redeemed. The dollar amount of each payment will depend both on number of shares redeemed and asset value per share at the time payment is made.

*Option 2.* Variable pay-out by monthly, quarterly, or annual redemptions of a stated number of shares each period until all shares are redeemed. The payment frequency and number of shares will be specified by the

shareholder in his request for pay-out option. The length of time over which payments will be made will depend upon the total number of shares owned, including such shares, if any, as have been added from time to time through reinvestment of dividends and realized capital gains during the pay-out period.

*Option 3.* Pay-out by monthly, quarterly, or annual redemptions of shares to provide a specified dollar amount each period until all shares are redeemed. The payment frequency and dollar amount of each payment will be specified by the shareholder in his request for pay-out option.

To elect one of the options, the shareholder will make written request on or before the date he wishes payments to begin. The option elected will remain in effect unless subsequently changed at the request of the shareholder. While there is no minimum dollar amount requirement for opening a systematic pay-out plan, a limitation on the availability of these options is that each payment under Option 3 shall be not less than \$50 and that the initial payment (and the first payment after a request for change would become effective) under either Option 1 or Option 2 shall be not less than \$50. These pay-out options have been designed to meet the needs of most shareholders and are in a form that IDS can handle expeditiously and at reasonable cost. If a shareholder wishes another pay-out method or methods the procedure set out in section 16 will be followed, with the shareholder making a separate written request for each redemption. To meet situations presently unforeseen, the Company reserves the right to alter or discontinue any systematic pay-out plan elected by any shareholder and to discontinue the availability of any such plans in the future. The purchase of shares in a mutual fund, either occasionally or pursuant to a systematic investment plan, at the same time as a systematic pay-out plan is in effect with respect to the same or any other fund would normally be disadvantageous to an investor because he would be paying a sales load on the amount being invested at the same time as he would be withdrawing money on which he had already paid a sales load. Mutual funds distributed by IDS will not accept applications for fund shares made pursuant to a systematic investment plan while a systematic pay-out plan is in effect with respect to any of such funds. However, isolated or occasional investments on a non-regular basis may be accepted. Attention is also called to the fact that if withdrawals by an investor under a systematic pay-out plan are in excess of current dividend income from his shares, he will reduce and may ultimately exhaust his principal.

Investors Diversified Services, Inc. (IDS) pays or reimburses the Company for the entire remuneration of all directors and officers of the Company. During the fiscal year ended September 30, 1965, IDS received \$10,438,087 as fees under the investment advisory and services agreement with the Company as described below.

IDS has acted as investment adviser of the Company since the Company's inception. On October 15, 1964 the present investment advisory and services agreement was approved by stockholders of the Company and entered into on that date. The present agreement provides for a graduated scale of fees equal on an annual basis to .50% on the first \$350 million of average net assets, .47% on the next \$300 million, .44% on the next \$250 million, .41% on the next \$250 million, .38% on the next \$250 million, .35% on the next \$250 million, .32% on the next \$250 million and .30% on all assets in excess of \$1.9 billion. The agreement also provides for a flat reduction of \$170,000 a year (\$14,166.67 monthly) from the fees computed in accordance with that scale.

The advisory and services fee is payable monthly but is calculated daily on the basis of net assets at the close of business each day.

The agreement provides that all expenses of the Company will be absorbed by IDS except (a) the fee under the agreement, (b) contractual expenses relating to the sale and distribution of the Company's shares, (c) certain taxes, and (d) broker's fees on the purchase and sale of assets. In addition, the agreement provides that IDS shall pay or reimburse the Company for legal fees and expenses of outside

counsel and professional consultants employed by it provided they are reasonable in amount.

The agreement requires that IDS, among other things, provide the Company with investment research and advice and make specific investment recommendations, subject to the direction and control of the Board of Directors, the Executive Committee and the officers of the Company. It will remain in effect until September 30, 1966, and may continue from year to year thereafter, provided such continuance after September 30, 1966 is specifically approved at least annually (1) by vote of the Directors of the Company and by vote of a majority of the directors who are not parties to such agreement or affiliated persons of any such party or (2) by vote of a majority of the outstanding voting securities of the Company. Such a majority vote is defined in the Investment Company Act of 1940 as 67% or more of the voting securities present at a stockholders' meeting, if more than 50% of such outstanding shares are present or represented by proxy, or more than 50% of the outstanding voting securities, whichever is less. The agreement also provides that it may be terminated without penalty by either party on 60 days' written notice, provided that such termination on the part of the Company is approved either by the Board of Directors or by a vote of a majority of the outstanding voting securities of the Company as defined above, and that it will terminate automatically in the event of its "assignment" by IDS as defined in such Act.

Reference is also made to section 15 for a statement as to sales charges received by IDS, as distributors of shares of the Company.

The directors and executive officers of the Company are listed below, together with information which includes their principal occupations during the past five years.

Harold K. Bradford\*  
1000 Roanoke Building  
Minneapolis, Minn.  
*Chairman of the Board of  
Directors and President*

Chairman of the Board, President and Director, Investors Mutual, Inc., Investors Selective Fund, Inc., Investors Variable Payment Fund, Inc., Investors Stock Fund, Inc. and Investors Inter-Continental Fund, Inc. (formerly Ltd.).

W. Grady Clark  
Investors Building  
Minneapolis, Minn.  
*Director*

Retired; Mr. Clark served as President of Investors Diversified Services, Inc. from July, 1960 to February, 1963 and thereafter as Chairman of the Board of that Company until he retired at the end of 1964. He is a Director of Investors Diversified Services, Inc., Investors Syndicate of America, Inc., Investors Syndicate Life Insurance and Annuity Company, Investors Mutual, Inc., Investors Selective Fund, Inc., Investors Stock Fund, Inc., Investors Variable Payment Fund, Inc. and Investors Inter-Continental Fund, Inc.

\* Member of Executive Committee

**Gen. Mark W. Clark**  
U. S. A., Retired  
Charleston, S. C.  
*Director*

President Emeritus, The Citadel, the Military College of South Carolina. Director, Investors Mutual, Inc., Investors Selective Fund, Inc., Investors Stock Fund, Inc., Investors Variable Payment Fund, Inc., Consolidated Foods Corp. and Dayco Corporation. Prior to his retirement from active duty with the Army, General Clark was, among other things, Chief of Staff of the Army Ground Forces and commanding general of the U. S. 5th Army during World War II, and commanding general of the U. S. Army Forces in the Far East during the Korean War.

**John C. Cornelius\***  
Northwestern Bank Building  
Minneapolis, Minn.  
*Director*

Retired executive vice president of and now senior consultant to the advertising firm of Batten, Barton, Durstine & Osborn. Mr. Cornelius is a Director of Investors Mutual, Inc., Investors Selective Fund, Inc., Investors Stock Fund, Inc., Investors Variable Payment Fund, Inc., Investors Inter-Continental Fund, Inc., Rexall Drug & Chemical Company, Red Owl Stores, Inc. and Doughboy Industries.

**Lewis L. Crosby\***  
1104 Roanoke Bldg.  
Minneapolis, Minn.  
*Director*

Retired as Vice President of Cargill, Inc. in 1964; now a Director, member of Executive Committee and Consultant to Chicago Great Western Railway. Director, Investors Mutual, Inc., Investors Stock Fund, Inc., and Investors Selective Fund, Inc.

**Randall F. Fullmer**  
1140 Terminal Tower  
Cleveland, Ohio  
*Director*

Partner in the law firm of Burgess, Fullmer, Parker & Steck, Cleveland, Ohio. Mr. Fullmer, a Director of Investors Mutual, Inc., Investors Selective Fund, Inc., Investors Stock Fund, Inc. and Investors Variable Payment Fund, Inc., is also a Director of the Bulkley Building Company, Director of and Counsel for Duplex Manufacturing and Foundry Company.

**Laurence M. Gould**  
Tucson, Ariz.  
*Director*

Geologist. President Emeritus, Carleton College. Mr. Gould is a Director of Investors Mutual, Inc., Investors Selective Fund, Inc., Investors Stock Fund, Inc. and Investors Variable Payment Fund, Inc.

**Frederick L. Hovde**  
Purdue University  
Lafayette, Ind.  
*Director*

President, Purdue University. Mr. Hovde is a Director of Investors Mutual, Inc., Investors Selective Fund, Inc., Investors Stock Fund, Inc., Investors Variable Payment Fund, Inc., General Electric Company and Inland Steel Company.

**Richard M. Nixon**  
20 Broad Street  
New York, N. Y.  
*Director*

Partner in law firm of Nixon, Mudge, Rose, Guthrie & Alexander, New York, N. Y., 1963 to present. From January 1, 1961 to January 1, 1963 Counsel to law firm of Adams, Duque & Hazeltine, Los Angeles, California. Vice President of United States from 1953 to 1961. Mr. Nixon is a Director of Investors Mutual, Inc., Investors Selective Fund, Inc., Investors Stock Fund, Inc., Investors Variable Payment Fund, Inc., and Harsco Corporation.

**Robert C. Reed**  
339 E. Foster Place  
Lake Forest, Ill.  
*Director*

Personal investments. Director of Investors Mutual, Inc., Investors Selective Fund, Inc., Investors Stock Fund, Inc. and Investors Variable Payment Fund, Inc.

**Stuart F. Silloway**  
800 Investors Building  
Minneapolis, Minn.  
*Director*

President and director of Investors Diversified Services, Inc., Investors Syndicate of America, Inc. and Investors Syndicate Life Insurance and Annuity Company. Mr. Silloway was President of the investment banking firm of Harriman, Ripley & Co., Inc. until September, 1963 and then a partner of Brooks, Harvey & Co., Inc. until July, 1964 when he became President of Investors Diversified Services, Inc. Director, Investors Mutual, Inc., Investors Stock Fund, Inc., Investors Selective Fund, Inc., and Investors Variable Payment Fund, Inc.

George E. MacKinnon  
1000 Roanoke Building  
Minneapolis, Minn.  
*General Counsel and  
Vice President*

George A. Mahon  
Investors Building  
Minneapolis, Minn.  
*Vice President*

Norman B. Waag  
Investors Building  
Minneapolis, Minn.  
*Vice President*

Robert S. Ersted  
1000 Roanoke Building  
Minneapolis, Minn.  
*Secretary and Treasurer*

Lawyer in Minneapolis since 1929; Assistant Counsel Investors Syndicate 1929-1942; Minnesota State Representative 1934-1942; U. S. Navy 1942-1946; Member of Congress 1947-1948; U. S. District Attorney—Minnesota 1953-1958; Special Assistant to U. S. Attorney General 1960; General Counsel and Vice-President of Investors Mutual, Inc., Investors Selective Fund, Inc., Investors Stock Fund, Inc., Investors Variable Payment Fund, Inc. and Investors Inter-Continental Fund, Inc. (formerly Ltd.) 1961 to date.

Vice President, Investors Diversified Services, Inc., Investors Syndicate of America, Inc., Investors Mutual, Inc., Investors Selective Fund, Inc., Investors Stock Fund, Inc., Investors Variable Payment Fund, Inc., and Investors Inter-Continental Fund, Inc.

Vice President, Investors Diversified Services, Inc., Investors Syndicate of America, Inc., Investors Mutual, Inc., Investors Selective Fund, Inc., Investors Stock Fund, Inc., Investors Variable Payment Fund, Inc. and Investors Inter-Continental Fund, Inc. Director, Investors Syndicate of America, Inc. and Investors Syndicate Life Insurance and Annuity Company.

Mr. Ersted became Secretary and Treasurer of Investors Mutual, Inc., Investors Selective Fund, Inc., Investors Stock Fund, Inc., Investors Variable Payment Fund, Inc., Investors Inter-Continental Fund, Inc. (formerly Ltd.) in June 1962. During the preceding five years he was a practicing lawyer in Minneapolis.

## 20 Certain information concerning Investors Diversified Services, Inc.

Investors Diversified Services, Inc. (IDS), the investment adviser and distributor for the Company, has outstanding 4,395,905 shares of Class A Common Stock and 11,490,800 shares of Class B Common Stock, both classes having equal per-share voting rights. Alleghany Corporation (Alleghany), 350 Park Avenue, New York, N. Y. owns beneficially 495,815 shares of Class A Common Stock and 6,295,360 shares of Class B Common Stock, constituting 42.75% of the outstanding voting stock of IDS, and giving it control of IDS within the meaning of the Investment Company Act of 1940. Allan P. Kirby, 17 DeHart Street, Morristown, N. J. owns beneficially 4,084,813 shares (approximately 40.52%) of the outstanding Common Stock of Alleghany. Mr. Kirby and certain associates have stated to the Company that they will not promote and that they will use their best efforts to avoid any change being made in

the incumbent IDS officer occupying the position of Vice President-Sales of IDS without ample advance notice to the President of the Company and the fullest consultation with him regarding the change and as to the suitability of the proposed replacement, and they will not promote and they will use their best efforts to avoid any change being made with respect to the present policies of IDS involving the sale of shares of the Company, or the use of the IDS sales force in connection with or in relation to such sales and which will affect the offering or sale of shares of the Company, or in the present operating policies of the Investment Department of IDS as they relate to the Company, without ample advance notice to and the fullest consultation with the President of the Company. The President of the Company has stated that in such event he would in turn consult with the Board of Directors.

## 21 Indemnification of Officers and Directors

On December 15, 1961, the directors of the Company passed a resolution providing for the indemnification by the Company, to the extent permitted by law, of past and present officers and directors against expense incurred by them in connection with the defense of any legal action in which they are made parties by reason of their office. In the opinion of counsel for the Company, concurred in by counsel for IDS, such expense if payable by the Company may be recoverable by the Company from IDS.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors or officers of the Company pursuant to the above resolution, or otherwise, the Company has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Company of expenses incurred or paid



by a director or officer of the Company in the successful defense of any action, suit or proceeding) is asserted by such director or officer in connection with the securities registered, the Company will, unless in the opinion of its counsel the matter has been settled

by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

## 22 Miscellaneous

(a) Shares of stock issued by the Company are all of one class, designated Capital Stock, with a par value of \$.50 per share. All shares are fully paid, non-assessable and transferable, with equal rights to earnings, dividends and assets. All shares have equal voting rights. Shares may be issued as full or fractional shares. Each fractional share has the same rights, including voting rights, which are provided for a full share but in the proportion which a fractional share bears to a full share. The shares have cumulative voting rights when voting upon the election of directors.

(b) Annual and semi-annual financial reports of the Company are mailed to each shareholder. The Company's financial statements as of the close of each fiscal year (September 30th) are examined by a firm of independent certified public accountants. The accounting firm of Peat, Marwick, Mitchell & Co., Minneapolis, Minnesota, has for a number of years been selected for this purpose.

(c) The Board of Directors of the Company, at its discretion, may require the payment of a fee not exceeding \$1.00 for each new stock certificate issued by the Company as a result of transfers or assignments, or as the result of lost, stolen, mutilated or destroyed certificates, or in connection with any special service by request, by a shareholder requiring the issuance of a new certificate, in addition to the payment of any lost instrument bond premiums, and federal or state taxes required to be paid in connection therewith.

(d) Investors Mutual, Inc. was incorporated on January 18, 1940 under the laws of the State of Nevada. Its principal offices are located in Minneapolis, Minnesota. Its charter provides for perpetual existence.

(e) As of September 30, 1965, officers and directors of the Company, as a group, owned less than 1% of the outstanding Capital Stock of the Company.

(f) The Company operates as a mutual diversified investment fund of the open-end type and has registered as such under the federal Investment Company Act of 1940. This registration does not involve supervision of management or investment practices or policies.

(g) In order to minimize federal income taxes, the management of the Company intends to conduct its business and Investors Diversified Services, Inc., its investment manager, intends to make recommendations and approvals as to investments, so that the Company may meet the requirements of Sections 851-855 of the federal Internal Revenue Code. The Company has met such requirements for the past fiscal year.

(h) Investors Diversified Services, Inc. (IDS) acts as principal underwriter and investment adviser for Investors Mutual, Inc., Investors Stock Fund, Inc., Investors Selective Fund, Inc., and Investors Variable Payment Fund, Inc., open-end investment companies. Investors Syndicate of America, Inc., a subsidiary of IDS, issues face-amount certificates. IDS is the sole underwriter (distributor) for Investors Accumulation Plan (IAP) which offers long term investment programs in the form of periodic payment Plan Certificates for the accumulation of shares of Investors Stock Fund, Inc. Other subsidiaries include Investors Syndicate Title & Guaranty Company, an issuer of installment and fully paid participation certificates in the state of New York, Investors Syndicate Life Insurance and Annuity Company, IDS Securities Corp., (a member of the Pacific Coast Stock Exchange), and Investors Accumulation Plan, Inc., sponsor of IAP.

(i) Keogh Act. For those self-employed individuals who wish to purchase shares of the Fund in conjunction with the Self-Employed Individuals Tax Retirement Act of 1962 (the Keogh Act) there is available from the distributor a Custodial Account Agreement and a sample Profit-Sharing Plan. The Custodial Account Agreement provides that Investors Diversified Services, Inc. (which is also the distributor) furnishes custodial services as required by such Act. For such services it will receive a service fee of \$10.00 for each calendar year or portion thereof payable by the Employer named in the Custodial Account Agreement. The amount of the service fee may change from time to time as a result of negotiations between Employer and Custodian. For further details, including the right to appoint a successor custodian, see the Custodial Account Agreement and Plan.

**PEAT, MARWICK, MITCHELL & Co.**

CERTIFIED PUBLIC ACCOUNTANTS

ACCOUNTANTS' REPORT

*The Board of Directors and the Shareholders of Investors Mutual, Inc.:*

We have examined the statement of net assets and capital stock and surplus, and the schedule of investments in securities of Investors Mutual, Inc. as of September 30, 1965 and the related statements of income, realized gain on investments, unrealized appreciation of investments, and surplus for the three years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We secured direct confirmation of the securities owned at September 30, 1965 from the custodian depository.

In our opinion, such financial statements and schedule present fairly the financial position of Investors Mutual, Inc. at September 30, 1965 and the results of its operations for the three years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

PEAT, MARWICK, MITCHELL & CO.

Minneapolis, Minnesota  
October 22, 1965



**INVESTORS MUTUAL, INC.**  
**Statement of Net Assets and Capital Stock and Surplus**  
**September 30, 1965**

**Assets**

Investment in securities—at market value—  
Schedule I:

Cost

Common stocks:

Affiliated company . . . . .	\$ 6,437,254	\$ 6,435,000
Other . . . . .	1,155,094,066	1,841,006,260
Preferred stocks . . . . .	190,735,688	194,008,566
Bonds . . . . .	785,292,680	787,206,437
Short-term notes . . . . .	66,434,630	66,434,630
Total . . . . .	<u>\$2,203,994,318</u>	<u>2,895,090,893</u>

Cash in banks:

On demand deposit . . . . .	5,616,349
Time deposits and interest thereon . . . . .	29,697,091
Receivable for investment securities sold . . . . .	152,687
Dividends and accrued interest receivable . . . . .	<u>15,670,655</u>

Total assets . . . . . \$2,946,227,675

**Liabilities**

Payable for investment securities purchased . . . . .	\$ 2,843,466
Payable for sales charges . . . . .	1,723,567
Accrued investment advisory and services fee . . . . .	<u>891,221</u>
Total liabilities . . . . .	<u>\$458,254</u>

Net assets applicable to shares of outstanding capital stock . . . . . \$2,940,769,421

**Capital stock and surplus**

Capital stock—authorized 350,000,000 shares of \$.50  
par value per share; outstanding 239,926,645 shares . . . . . \$ 119,963,322

Surplus, per Statement D:

Paid-in surplus . . . . .	2,128,560,891
Undistributed net income . . . . .	1,544,158
Undistributed net realized gain on investments (deficit) . . . . .	<u>(395,525)</u>
Total capital stock and surplus . . . . .	<u>\$2,249,672,846</u>

Unrealized appreciation of investments, per Statement C . . . . . 691,096,575

Total—representing value of net assets  
applicable to outstanding capital stock . . . . . \$2,940,769,421

Net asset value per share of outstanding capital stock . . . . . \$ 12.257

See accompanying notes to financial statements.

**INVESTORS MUTUAL, INC.**  
**Statement of Income**

Three years ended September 30, 1965

1965

1964

1963

*Income*

Cash dividends on stocks:

On investments in affiliates . . . . .	\$ 286,000	\$ 286,000	\$ 240,160
Other . . . . .	66,593,518	61,102,653	55,808,336

Interest . . . . .	40,735,267	30,987,347	24,293,534
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Other income (note 2) . . . . .	35,554	625,529	12,707
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Total income . . . . .	\$ 107,650,339	\$ 93,001,529	\$ 80,354,737
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*Expenses (note 2)*

Investment advisory and services fee . . . . .	\$ 10,438,087	\$ 10,431,136	\$ 9,472,155
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Custodian fee . . . . .	—	—	181,375
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Dividend checks and shareholders' notices and reports . . . . .	—	—	122,969
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Postage . . . . .	—	—	158,676
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Directors' fees . . . . .	—	—	49,350
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Audit fees . . . . .	—	—	14,880
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Other expenses . . . . .	—	—	80
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Total expenses . . . . .	\$ 10,438,087	\$ 10,431,136	\$ 9,999,485
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Percentage of total expenses to total income . . . . .	9.7%	11.2%	12.4%
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Net income . . . . .	\$ 97,212,252	\$ 82,570,393	\$ 70,355,252
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Net realized gain on investments, per Statement C . . . . .	\$ 67,227,940	\$ 50,715,497	\$ 37,625,137
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Increase in unrealized appreciation of investments for the year, per Statement C . . . . .	\$ 6,402,016	\$ 169,286,979	\$ 244,457,679
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**INVESTORS MUTUAL, INC.**  
**Statements of Realized Gain on Investments**  
**and Unrealized Appreciation of Investments**

Three years ended September 30, 1965                      1965                      1964                      1963

**STATEMENT OF REALIZED GAIN ON INVESTMENTS**

*Realized gain on sales of investments*

**Proceeds from sales of investments:**

Securities of affiliates . . . . .	\$ —	\$ —	\$ 1,500,254
U.S. Government obligations . . . . .	3,447,500	5,362,500	3,000,000
Short-term notes . . . . .	538,196,102	371,523,770	267,407,377
Other securities . . . . .	246,584,628	166,553,959	201,964,355
<b>Total proceeds from sales of investments . . . . .</b>	<b>\$ 788,228,230</b>	<b>\$ 543,440,229</b>	<b>\$ 473,871,986</b>

**Cost of investments sold:**

Securities of affiliates . . . . .	\$ —	\$ —	\$ 314,283
U.S. Government obligations . . . . .	3,447,500	5,362,500	3,000,000
Short-term notes . . . . .	538,196,224	371,524,343	267,406,922
Other securities . . . . .	198,052,516	115,837,889	165,528,884
<b>Total cost of investments sold . . . . .</b>	<b>\$ 739,696,240</b>	<b>\$ 492,724,732</b>	<b>\$ 436,250,089</b>

**Realized gain (loss) on sales of investments:**

Securities of affiliates . . . . .	\$ —	\$ —	\$ 1,185,971
U.S. Government obligations . . . . .	—	—	—
Short-term notes . . . . .	(122)	(573)	455
Other securities . . . . .	48,532,112	50,716,070	36,435,471
<b>Total realized gain on sales of investments . . . . .</b>	<b>\$ 48,531,990</b>	<b>\$ 50,715,497</b>	<b>\$ 37,621,897</b>

*Realized gain on exchanges of investments*

Value of investments acquired through exchanges . . . . .	\$ 37,113,078	\$ 2,920,168	\$ 9,467,374
Cost of investments released through exchanges . . . . .	18,417,128	2,920,168	9,464,134
<b>Realized gain on exchanges of investments . . . . .</b>	<b>\$ 18,695,950</b>	<b>\$ —</b>	<b>\$ 3,240</b>

<b>Net realized gain on investments (note 2) . . . . .</b>	<b>\$ 67,227,940</b>	<b>\$ 50,715,497</b>	<b>\$ 37,625,137</b>
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**STATEMENT OF UNREALIZED APPRECIATION OF INVESTMENTS**

Appreciation at beginning of the year . . . . .	\$ 684,694,559	\$ 515,407,580	\$ 270,949,901
Appreciation at end of the year . . . . .	691,096,575	684,694,559	515,407,580
<b>Increase for . . . . .</b>	<b>\$ 6,402,016</b>	<b>\$ 169,286,979</b>	<b>\$ 244,457,679</b>

See accompanying notes to financial statements.

**INVESTORS MUTUAL, INC.**  
**Surplus Statements**

Three years ended September 30, 1965	1965	1964	1963
<b>PAID-IN SURPLUS</b>			
Balance at beginning of the year . . . . .	\$1,827,486,185	\$1,567,434,783	\$1,360,652,262
From			
Proceeds of sales 34,499,678, 30,253,304 and 25,469,412 shares of capital stock, respectively (note 2), less \$.50 a share credited to capital stock . . . . .	409,525,818	348,094,343	272,261,590
Total . . . . .	\$2,237,012,003	\$1,915,529,126	\$1,632,913,852
Reduction			
Redemption value of 9,107,757, 7,705,298 and 6,222,595 shares of capital stock, respectively, less \$.50 a share charged to capital stock . . . . .	108,451,112	88,042,941	65,479,069
Balance at end of the year . . . . .	\$2,128,560,891	\$1,827,486,185	\$1,567,434,783
<b>UNISTRIBUTED NET INCOME</b>			
Balance at beginning of the year . . . . .	\$ 1,349,849	\$ 1,155,071	\$ 1,626,696
Income for the year . . . . .	97,212,252	82,570,393	70,355,252
Total . . . . .	\$ 98,562,101	\$ 83,725,464	\$ 71,981,948
Expended, paid to or for shareholders . . . . .	97,017,943	82,375,615	70,826,877
Balance at end of the year . . . . .	\$ 1,544,158	\$ 1,349,849	\$ 1,155,071
<b>UNISTRIBUTED NET REALIZED GAIN OR INVESTMENTS (DEFICIENCY)</b>			
Balance at beginning of the year . . . . .	\$ 310,299,396	\$ 259,583,899	\$ 221,958,762
Net change in value of investments prior to liquidation of the year . . . . .	310,559,823	259,880,870	222,168,318
Change in value of investments during the year . . . . .	\$ (260,427)	\$ (296,971)	\$ (209,556)
Net change in value of investments for the year . . . . .	67,227,940	50,715,497	37,625,137
Total . . . . .	\$ 66,967,513	\$ 50,418,526	\$ 37,415,581
Net change in value of investments during the year . . . . .	67,363,038	50,678,953	37,712,552
Change in value of investments during the year . . . . .	\$ (395,525)	\$ (260,427)	\$ (296,971)

See accompanying notes to financial statements.

# INVESTORS MUTUAL, INC.

## Notes to Financial Statements

### 1. Income Taxes:

Since the Company met the requirements of sections 851-855 of the Internal Revenue Code for the three years ended September 30, 1965 and intends to continue to meet such requirements and to distribute taxable income to shareholders in amounts which will avoid or minimize income taxes, no provision is made for income taxes on undistributed net income or unrealized appreciation of investments.

### 2. Investment Advisory and Services Investment Advisory Charges:

Under the agreement in effect prior to April 6, 1963 the investment advisory and services fee payable to Investors Diversified Services, Inc. (IDS) was a quarterly fee of  $\frac{1}{8}$  of 1% of the value of the net assets of the Company. On April 6, 1963 (retroactive to January 22, 1963) a new agreement was entered into whereunder a reduced scale of fees on a graduated basis was made effective and IDS agreed to assume certain recurring expenses which were borne by the Company under the previous agreement. However, under the terms of a stipulation of settlement of then pending stockholders' derivative lawsuits, a portion of the fee reduction and the agreement by IDS to assume the additional expenses was not to become effective until final court approval of the settlement was obtained. Meanwhile, the amounts involved were deposited in escrow each month and invested in interest bearing securities. On July 2, 1964, the final court approval of the settlements having been obtained, the total amount then in escrow, \$946,873, was received by the Company. A portion of this amount, \$505,783, was applicable to the period January 22, 1963 to September 30, 1963, and this amount plus interest earned on the escrow deposit, \$22,241, is included in "other income" for the year ended September 30, 1964, while the balance, \$418,849, offset all expenses other than the investment advisory and services fee for the year ended September 30, 1964. If the April 6, 1963 agreement had been in effect for the full year ended September 30, 1963 net income of the Company would have been increased by \$1,105,171 (including the \$505,783 referred to above). On October 15, 1964, a new agreement became effective which provides for a revised graduated scale of fees. If this agreement had been in effect during the year ended September 30, 1964, the investment advisory and services fee would have been \$9,236,000. The present agreement and fee scale are further described in this Prospectus under the heading "Remuneration and Fees".

Sales charges by IDS for its services as distributor of the shares of capital stock of Investors Mutual, Inc. during the years ended September 30, 1965, 1964 and 1963 aggregated \$20,276,818, \$16,634,666 and \$12,506,777, respectively. Sales charges are not an expense of the Company. They are deducted from and are not included in the proceeds of sales of capital

stock as shown in the accompanying statement of paid-in surplus. From such charges IDS pays commissions to salesmen, salaries and other sales expenses.

### 3. Statement of Securities Acquired Costs of Determining Net Realized Gains:

The cost of securities acquired during the periods was as follows:

	United States Government	Short-term Notes	Other
Year ended September 30:			
1965	\$3,447,500	\$544,323,382	\$470,145,089
1964	5,362,500	340,398,115	420,546,373
1963	3,000,000	302,399,840	322,852,301

Net realized gains were determined on the basis of identified costs for stocks and on the basis of first-in, first-out costs for bonds. Net realized gains on stocks and bonds determined on the basis of average costs for the years ended September 30, 1965, 1964 and 1963 would have been \$67,298,528, \$50,221,519 and \$36,996,878, respectively.

The amounts per share of dividends paid during the periods were as follows:

Payable to shareholders of record on	From undistributed income	From net realized gain on investments
Year ended September 30, 1965:		
December 31, 1964	\$0.0975	
March 25, 1965	.105	
June 24, 1965	.11	
September 29, 1965	.11625	\$0.2875
Total	\$0.42875	\$0.2875
Year ended September 30, 1964:		
December 31, 1963	\$0.0925	
March 25, 1964	.095	
June 25, 1964	.105	
September 24, 1964	.11375	\$0.24125
Total	\$0.40625	\$0.24125
Year ended September 30, 1963:		
December 31, 1962	\$0.0925	
March 28, 1963	.095	
June 27, 1963	.1025	
September 26, 1963	.10	\$0.20
Total	\$0.39	\$0.20

# **INVESTORS MUTUAL, INC.**

## **Investments in Securities, September 30, 1965**

SHARES	NAME OF ISSUER AND TITLE OF ISSUE	COST	MARKET VALUE (a)	PERCENTAGE OF TOTAL MARKET VALUE
128,300	Avco Corp. . . . .	\$ 3,407,498	\$ 2,822,600	.10%
135,000	Lockheed Aircraft Corp. . . . .	4,269,981	8,015,625	.28
93,500	North American Aviation, Inc. . . . .	4,282,782	5,025,625	.17
		<u>\$ 11,960,261</u>	<u>\$ 15,863,850</u>	<u>.55%</u>
213,000	International Harvester Co. . . . .	\$ 6,058,726	\$ 8,147,250	.28%
618,000	Ford Motor Co. . . . .	\$ 24,306,801	\$ 34,530,750	1.19%
1,224,000	General Motors Corp. . . . .	86,131,280	128,520,000	4.44
		<u>\$ 110,438,081</u>	<u>\$ 163,050,750</u>	<u>5.63%</u>
57,400	Bank of California, N. A. . . . .	\$ 2,008,200	\$ 3,271,800	.11%
303,100	Marine Midland Corp. . . . .	3,638,522	9,812,863	.34
88,800	National Bank of Detroit . . . . .	4,370,258	5,827,500	.20
97,700	National City Bank of Cleveland . . . . .	2,544,735	5,568,900	.19
175,300	Northwest Bancorporation . . . . .	3,363,402	8,282,925	.29
		<u>\$ 15,925,117</u>	<u>\$ 32,763,988</u>	<u>1.13%</u>
200,000	Armstrong Cork Co. . . . .	\$ 4,717,570	\$ 12,000,000	.41%
220,000	Ideal Cement Co. . . . .	6,424,099	4,152,500	.14
225,000	Lone Star Cement Co. . . . .	5,907,378	3,937,500	.14
200,000	Sherwin-Williams Co. . . . .	9,771,762	11,400,000	.39
125,000	U.S. Gypsum Co. . . . .	10,674,026	8,312,500	.29
		<u>\$ 37,494,835</u>	<u>\$ 39,802,500</u>	<u>1.37%</u>
244,800	Addressograph-Multigraph Corp. . . . .	\$ 5,746,782	\$ 13,953,600	.48%
173,100	International Business Machines Corp. . . . .	53,852,481	88,713,750	3.07
		<u>\$ 59,599,263</u>	<u>\$ 102,667,350</u>	<u>3.55%</u>
372,300	Allied Chemical Corp. . . . .	\$ 16,988,584	\$ 18,149,625	.63%
22,500	duPont (E. I.) deNemours & Co. . . . .	4,996,617	5,411,250	.19
225,000	Hercules Powder Co. . . . .	4,728,169	9,000,000	.31
302,800	Monsanto Co. . . . .	12,014,580	25,359,500	.87
400,000	Union Carbide Corp. . . . .	24,436,083	26,700,000	.92
		<u>\$ 63,164,033</u>	<u>\$ 84,620,375</u>	<u>2.92%</u>
200,000	Owens-Illinois, Inc. . . . .	\$ 8,244,839	\$ 11,600,000	.40%



**INVESTORS MUTUAL, INC.**  
**Investments in Securities, Continued**

(continued)

SHARES	NAME OF ISSUER AND TITLE OF ISSUE	COST	MARKET VALUE (a)	PERCENTAGE OF TOTAL MARKET VALUE
214,000	American Home Products Corp. . . . .	\$ 1,077,724	\$ 16,879,250	.59%
225,000	Pfizer (Chas.) & Co., Inc. . . . .	3,879,689	13,978,125	.48
		<u>\$ 4,957,413</u>	<u>\$ 30,857,375</u>	<u>1.07%</u>
	Emerson and Associates			
320,000	Emerson Electric Co. . . . .	\$ 11,642,206	\$ 17,800,000	.61%
409,100	General Electric Co. . . . .	30,101,900	47,864,700	1.65
430,900	Westinghouse Electric Corp. . . . .	14,676,689	24,184,263	.84
200,000	Whirlpool Corp. . . . .	3,488,073	8,600,000	.30
		<u>\$ 59,908,868</u>	<u>\$ 98,448,963</u>	<u>3.40%</u>
200,000	International Telephone & Telegraph Corp. . . . .	\$ 8,443,207	\$ 11,000,000	.38%
217,900	Beneficial Finance Co. . . . .	\$ 7,734,775	\$ 13,182,950	.46%
300,000	C.I.T. Financial Corp. . . . .	12,155,658	9,412,500	.32
240,000	Commercial Credit Co. . . . .	10,688,323	8,400,000	.29
160,000	Household Finance Corp. . . . .	5,958,597	10,680,000	.37
		<u>\$ 36,537,353</u>	<u>\$ 41,675,450</u>	<u>1.44%</u>
350,000	Borden Co. . . . .	\$ 8,077,764	\$ 15,750,000	.54%
377,000	California Packing Corp. . . . .	2,064,811	10,367,500	.36
240,000	Campbell Soup Co. . . . .	6,891,840	8,430,000	.29
130,000(e)	Continental Baking Co. . . . .	6,437,254	6,435,000	.22
167,000	General Foods Corp. . . . .	7,515,362	13,902,750	.48
212,000	Standard Brands, Inc. . . . .	11,062,665	16,430,000	.57
400,000	Unilever N. V. Fl. 20. . . . .	14,532,642	14,900,000	.52
		<u>\$ 56,582,338</u>	<u>\$ 86,215,250</u>	<u>2.98%</u>
185,000	The International Nickel Co. of Canada, Ltd. . . . .	\$ 7,379,183	\$ 17,020,000	.59%
615,919(b,c)	Kaiser (Henry J.) & Co. (Warrants) . . . . .	106,499	505,908	.02
100,000	Phelps Dodge Corp. . . . .	6,800,419	7,262,500	.25
		<u>\$ 14,286,101</u>	<u>\$ 24,788,408</u>	<u>.86%</u>
151,800	Cities Service Co. . . . .	\$ 9,340,852	\$ 13,054,800	.45%
250,000	Continental Oil Co. (Del.). . . . .	10,479,610	19,593,750	.68
294,300	Gulf Oil Corp. . . . .	7,297,171	17,142,975	.59
447,300	Marathon Oil Co. . . . .	16,447,739	27,564,863	.95
260,000	Phillips Petroleum Co. . . . .	8,677,739	14,267,500	.49
792,000	Royal Dutch Petroleum Co. . . . .	26,232,045	32,967,000	1.14
337,600	Shell Oil Co. . . . .	6,709,317	22,534,800	.78
490,000	Socony Mobil Oil Co., Inc. . . . .	33,723,123	43,120,000	1.49
449,200	Standard Oil Co. (Indiana) . . . . .	10,199,697	21,505,450	.74
1,000,000	Standard Oil Co. (New Jersey). . . . .	59,116,918	78,500,000	2.71
787,500	Texaco, Inc. . . . .	22,813,050	65,953,125	2.28
		<u>\$ 211,037,261</u>	<u>\$ 356,204,263</u>	<u>12.30%</u>

**INVESTORS MUTUAL, INC.**  
**Investments in Securities, Continued**

(continued)

COMMON STOCKS (Continued)				PERCENTAGE OF TOTAL MARKET VALUE
SHARES	NAME OF ISSUER AND TITLE OF ISSUE	COST	MARKET VALUE (a)	
235,000	Container Corp. of America . . . . .	\$ 4,442,442	\$ 7,990,000	.28%
170,000	Kimberly-Clark Corp. . . . .	7,268,116	8,861,250	.30
		<u>\$ 11,710,558</u>	<u>\$ 16,851,250</u>	<u>.58%</u>
278,200	Denver & Rio Grande Western R.R. Co. . . . .	\$ 4,872,281	\$ 5,668,325	.20%
80,400	Norfolk & Western Ry. Co. . . . .	6,716,402	9,899,250	.34
200,000	Northern Pacific Ry. Co. . . . .	8,838,700	9,875,000	.34
150,000	Seaboard Air Line R.R. Co. . . . .	4,749,464	6,431,250	.23
384,800	Southern Pacific Co. . . . .	7,915,467	15,969,200	.55
160,000	Southern Ry. Co. . . . .	7,135,118	9,060,000	.31
115,000	Union Pacific R.R. Co. . . . .	3,223,035	4,729,375	.16
		<u>\$ 43,450,467</u>	<u>\$ 61,632,400</u>	<u>2.13%</u>
277,400	Associated Dry Goods Corp. . . . .	\$ 6,368,416	\$ 16,089,200	.56%
268,000	Federated Dept. Stores, Inc. . . . .	4,689,621	17,855,500	.62
225,000	Great Atlantic & Pacific Tea Co. . . . .	9,246,482	8,521,875	.29
130,000	Macy (R.H.) & Co. . . . .	4,473,782	6,532,500	.23
275,000	Montgomery Ward & Co. . . . .	10,474,957	9,693,750	.33
210,000	J. C. Penney Co., Inc. . . . .	9,663,387	14,122,500	.49
250,000	Safeway Stores, Inc. . . . .	6,308,391	8,156,250	.28
181,300	Sears, Roebuck & Co. . . . .	12,000,026	11,625,863	.40
		<u>\$ 63,225,062</u>	<u>\$ 92,597,438</u>	<u>3.20%</u>
214,000	Firestone Tire & Rubber Co. . . . .	\$ 5,168,495	\$ 9,416,000	.33%
448,000	Goodyear Tire & Rubber Co. . . . .	8,695,699	22,064,000	.76
		<u>\$ 13,864,194</u>	<u>\$ 31,480,000</u>	<u>1.09%</u>
385,600	Armco Steel Corp. . . . .	\$ 21,598,041	\$ 26,124,400	.90%
450,000	Bethlehem Steel Corp. . . . .	14,542,528	16,931,250	.58
275,000	Inland Steel Co. . . . .	10,888,049	12,650,000	.44
175,800	U.S. Steel Corp. . . . .	9,668,578	8,636,175	.30
		<u>\$ 56,697,196</u>	<u>\$ 64,341,825</u>	<u>2.22%</u>
341,000	Burlington Industries . . . . .	\$ 10,153,876	\$ 13,171,125	.45%
380,000	Arkansas Louisiana Gas Co. . . . .	\$ 3,990,000	\$ 15,960,000	.55%
360,000	Columbia Gas System, Inc. . . . .	10,001,713	10,845,000	.38
189,000	Northern Natural Gas Co. . . . .	3,786,003	11,812,500	.41
231,300	Pacific Lighting Corp. . . . .	6,968,286	6,592,050	.23
412,700	Panhandle Eastern Pipe Line Co. . . . .	9,875,935	15,992,125	.55
211,000	Peoples Gas, Light & Coke Co. . . . .	5,456,988	9,811,500	.34
438,900	Transcontinental Gas Pipe Line Corp. . . . .	6,874,640	10,533,600	.36
		<u>\$ 46,953,565</u>	<u>\$ 81,546,775</u>	<u>2.82%</u>

**INVESTORS MUTUAL, INC.**  
**Investments in Securities, Continued**

(continued)

**COMMON STOCKS (Continued)**

SHARES	NAME OF ISSUER AND TITLE OF ISSUE	COST	MARKET VALUE (a)	PERCENTAGE OF TOTAL MARKET VALUE
<i>Utilities—Power and Light</i>				
170,000	American Electric Power Co. . . . .	\$ 3,562,009	\$ 7,310,000	.25%
210,000	Central & South West Corp. . . . .	5,888,720	10,080,000	.35
300,000	Cleveland Electric Illuminating Co. . . . .	7,442,313	13,012,500	.45
250,000	Columbus & Southern Ohio Electric Co. . . . .	4,773,730	10,718,750	.37
240,000	Consolidated Edison Co. of N.Y., Inc. . . . .	10,981,010	10,560,000	.36
220,500	Florida Power Corp. . . . .	2,766,004	10,032,750	.35
243,900	Houston Lighting & Power Co. . . . .	9,477,496	13,353,525	.46
200,000	Kansas Gas & Electric Co. . . . .	3,553,593	7,400,000	.26
226,000	Long Island Lighting Co. . . . .	3,837,908	7,514,500	.26
250,000	Middle South Utilities, Inc. . . . .	9,702,606	13,437,500	.47
300,000	Montana Power Co. . . . .	3,471,234	11,700,000	.40
192,600	New York State Electric & Gas Corp. . . . .	3,930,629	8,715,150	.30
400,000	Niagara Mohawk Power Co. . . . .	11,303,933	10,850,000	.37
287,500	Northern States Power Co. (Minn.). . . . .	4,989,411	10,637,500	.37
453,900	Oklahoma Gas & Electric Co. . . . .	5,999,111	13,276,575	.46
250,000	Public Service Electric & Gas Co. . . . .	6,862,176	10,000,000	.35
200,000	Southern Co. . . . .	4,056,032	13,950,000	.48
225,000	Texas Utilities Co. . . . .	3,886,725	14,596,875	.50
250,000	Toledo Edison Co. . . . .	4,489,197	9,593,750	.33
160,000	Virginia Electric & Power Co. . . . .	1,134,803	7,520,000	.26
		<u>\$ 112,108,640</u>	<u>\$ 214,259,375</u>	<u>7.40%</u>
<i>Utilities—Other</i>				
377,000	American Telephone & Telegraph Co. . . . .	\$ 20,268,815	\$ 25,447,500	.88%
320,000	American Water Works Co. . . . .	1,634,217	6,000,000	.21
943,500	General Telephone and Electronics Corp. . . . .	16,316,444	41,749,875	1.44
		<u>\$ 38,219,476</u>	<u>\$ 73,197,375</u>	<u>2.53%</u>
<i>Not Classified</i>				
210,100	Columbia Broadcasting Systems, Inc. . . . .	\$ 4,958,860	\$ 8,141,375	.28%
115,600	Eastman Kodak Co. . . . .	1,091,075	11,646,700	.40
174,000	General American Transportation Corp. . . . .	4,522,953	6,699,000	.23
400,000	Gillette Co. . . . .	6,035,841	15,550,000	.54
150,000	North American Car Corp. . . . .	765,309	4,200,000	.15
790,800	Other. . . . .	43,136,552	44,420,850	1.53
		<u>\$ 60,510,590</u>	<u>\$ 90,657,925</u>	<u>3.13%</u>
	Total common stocks. . . . .	<u>\$1,161,531,320</u>	<u>\$1,847,441,260</u>	<u>63.81%</u>
<b>SUMMARY—COMMON STOCKS</b>				
	Affiliated company (note e) . . . . .	\$ 6,437,254	\$ 6,435,000	.22%
	Other. . . . .	1,155,094,066	1,841,006,260	63.59
	Total, as above . . . . .	<u>\$1,161,531,320</u>	<u>\$1,847,441,260</u>	<u>63.81%</u>

**INVESTORS MUTUAL, INC.**  
**Investments in Securities, Continued**

(continued)

PREFERRED STOCKS					PERCENTAGE OF TOTAL MARKET VALUE
SHARES	NAME OF ISSUER AND TITLE OF ISSUE	COST	MARKET VALUE (a)		
<i>Commercial Finance</i>					
9,000(b)	Talcott (James), Inc., 6¼% Cum. . . . .	\$ 450,000	\$ 468,000		.02%
<i>Consumer Credit</i>					
10,000(b)	American Credit Corp., 5.50% Cum., Series of 1955 S.F. . . . .	\$ 250,000	\$ 251,250		.01%
20,800(b)	American Credit Corp., 6¼% Cum. . . . .	520,000	546,000		.02
60,000(b)	American Credit Corp., 6¾% . . . . .	1,500,000	1,582,500		.05
6,700	American Investment Co., 5¼% Cum. Prior . . . . .	670,000	683,400		.02
66,672(b)	Continental Commercial Corp., 6½% Cum. . . . .	666,720	683,388		.02
5,500(b)	General Acceptance Corp., \$5.00 Cum. . . . .	544,500	539,688		.02
30,000(b)	General Acceptance Corp., 5.25% Series B. Cum. . . . .	3,000,000	2,970,000		.10
5,960(b)	General Acceptance Corp., \$6.00 Series Voting Preference . . . . .	596,000	598,980		.02
16,500(b)	General Acceptance Corp., 6¼% Cum. S.F. . . . .	1,650,000	1,732,500		.06
8,800(b)	Interstate Securities Co., 5¼% Cum. . . . .	880,000	866,800		.03
3,999(b)	Interstate Securities Co., 6½% Cum. . . . .	399,900	406,398		.02
10,000(b)	Pioneer Finance Co., 6¼% Cum. . . . .	1,000,000	1,046,250		.04
23,342(b)	Seaboard Finance Co., \$5.00 S.F. . . . .	2,327,130	2,316,694		.08
8,572(b)	Securities Investment Co. of St. Louis, Mo., 5½% Cum. S.F. . . . .	857,200	848,628		.03
		\$ 14,861,450	\$ 15,072,476		.52%
<i>Industrial</i>					
4,900	Allied Stores Corp., 4% Cum. . . . .	\$ 448,185	\$ 444,675		.02%
3,437(b)	American Machine & Foundry Co., 5% Cum. . . . .	343,700	350,574		.01
65,000	American Sugar Co., 5.44% . . . . .	876,757	853,125		.03
11,700	Ashland Oil & Refining Co., \$5.00 Cum. . . . .	1,115,115	1,158,300		.04
12,850	Carrier Corp., 4½% Cum. . . . .	472,535	628,044		.02
20,000	Celanese Corp. of America, 4½% Cum. . . . .	2,010,914	1,895,000		.06
7,320	Food Fair Stores, Inc., \$4.20 Cum., Series 1951 . . . . .	732,000	710,040		.02
10,000	Glatfelter (P.H.) Co., 4¾% Cum., Series of 1955 . . . . .	486,840	470,000		.02
7,925	Houdaille Industries, Inc., \$2.25 Cum. . . . .	364,070	345,728		.01
22,000(b)	Hudson Pulp & Paper Corp., 5.70% Cum. Series C . . . . .	550,000	550,000		.02
39,200(b)	Hudson Pulp & Paper Corp., 6¼% Cum. Series D . . . . .	980,000	980,000		.03
5,000	Hunt Foods and Industries, Inc., 5% Cum. Series A . . . . .	437,500	485,000		.02
5,000	Interchemical Corp., 4½% Cum. . . . .	439,964	497,500		.02
5,000	International Minerals & Chemicals Corp., 4% Cum. . . . .	439,751	437,500		.02
37,500	Kaiser Steel Corp., \$1.46 Cum. . . . .	727,475	923,438		.03
40,000(b)	Kaiser Steel Corp., 5¾% Cum. Conv. . . . .	4,000,000	4,080,000		.14
13,402(b)	Libby, McNeill & Libby, 5¼% Cum. . . . .	1,340,200	1,340,200		.04
3,000(c)	Pittsburgh Steel Co., 5½% Cum. Prior 1st Series . . . . .	237,862	252,000		.01
16,770(b)	Weatherhead Co., \$5.75 Cum. . . . .	1,677,000	1,677,000		.06
		\$ 17,679,868	\$ 18,078,124		.62%

**INVESTORS MUTUAL, INC.**  
**Investments in Securities, Continued**

(continued)

UNRECORDED STOCKS (Continued)				PERCENTAGE OF TOTAL MARKET VALUE
SHARES	NAME OF ISSUER AND TITLE OF ISSUE	COST	MARKET VALUE (a)	
<b>Utilities—Power and Light</b>				
6,580	Appalachian Power Co., 4½% Cum. . . . .	\$ 735,859	\$ 621,810	.02%
20,000	Arizona Public Service Co., \$2.40 Cum. Series A . . . . .	1,000,000	1,010,000	.03
13,364(b)	Arkansas-Missouri Power Co., 4.65% Cum. . . . .	1,336,400	1,323,036	.05
6,950(b)	Black Hills Power & Light Co., 4.75% . . . . .	695,000	695,000	.02
6,533(b)	Black Hills Power & Light Co., 5.65% Cum. . . . .	653,300	692,498	.02
12,000	Carolina Power & Light Co., \$5.00 Cum. . . . .	1,297,270	1,275,000	.04
1,185	Central Illinois Public Service Co., 4.92% Cum. . . . .	120,277	120,870	.01
13,600(b)	Central Louisiana Electric Co., 4.50% Cum., Series of 1955 . . . . .	1,360,000	1,315,800	.05
14,500(b)	Central Louisiana Electric Co., 5½% Series of 1958 . . . . .	1,450,000	1,520,688	.05
5,700	Columbus & Southern Ohio Electric Co., 4¼% Cum. . . . .	616,328	521,550	.02
20,000(b)	Consolidated Edison Co. of New York, Inc., 5¼% Cum. . . . .	2,000,000	2,145,000	.07
80,000(b)	Consolidated Edison Co. of New York, Inc., 5¼% Cum. Ser. A . . . . .	8,000,000	8,620,000	.30
3,660	Empire District Electric Co., 4¼% Cum. . . . .	369,000	362,340	.01
1,320	Empire District Electric Co., 5% Cum. . . . .	134,504	132,000	.01
20,000	Fall River Electric Light Co., 5.80% Cum. . . . .	1,990,000	2,164,200	.07
10,000(b)	Florida Power Corp., 4¼% Cum. . . . .	1,000,000	1,000,000	.03
15,000	Georgia Power Co., 4.92% Cum. . . . .	1,537,500	1,545,000	.05
9,073(b)	Green Mountain Power Corp., 5% Cum. Class A . . . . .	907,300	920,910	.03
10,000(b)	Indianapolis Power & Light Co., 4.60% Cum. . . . .	1,000,000	990,000	.03
10,000(b)	Kansas Power & Light Co., 4¼% Cum. . . . .	1,000,000	910,000	.03
9,800	Kentucky Utilities Co., 4¼% Cum. . . . .	989,800	967,750	.03
8,000	Long Island Lighting Co., 5% Cum. Series B . . . . .	800,000	824,000	.03
6,000	Louisiana Power & Light Co., 4.96% Cum. . . . .	601,200	615,000	.02
10,000	Louisiana Power & Light Co., 5.16% Cum. . . . .	985,973	1,042,500	.04
10,100	Montana-Dakota Utilities Co., 4.50% Cum. . . . .	964,082	939,300	.03
11,300	Montana-Dakota Utilities Co., 4.70% Cum. . . . .	1,100,798	1,118,700	.04
16,300	Narragansett Electric Co., 4.64% Cum. . . . .	833,338	815,000	.03
7,500	New England Power Co., 4.60% Cum. . . . .	743,003	735,000	.03
5,075	New Orleans Public Service, Inc., 4¾% Cum. . . . .	542,271	504,963	.02
6,340	Northern Indiana Public Service Co., 4¼% Cum. . . . .	582,534	564,260	.02
10,000	Northern States Power Co., (Minn.) \$4.16 Cum. . . . .	987,705	912,500	.03
9,100(b)	Northwestern Public Service Co., 5¼% Cum. . . . .	910,000	937,300	.03
10,000(b)	Orange & Rockland Utilities, Inc., 4.75% Cum. Series B . . . . .	1,000,000	1,000,000	.03
7,684	Otter Tail Power Co., \$4.40 Cum. . . . .	760,788	722,296	.03
73,850	Pacific Gas & Electric Co., 5% Cum. Redeemable 1st Plain . . . . .	1,956,759	1,947,794	.07
16,150	Pacific Gas & Electric Co., 5% Cum. Redeemable 1st Series A . . . . .	466,482	429,994	.01
6,508	Potomac Edison Co., 4.70% Cum. B . . . . .	683,653	644,292	.02
20,000	Potomac Electric Power Co., \$2.46 Cum., Series of 1958 . . . . .	1,000,000	1,025,000	.03
7,505	Public Service Co. of New Hampshire, 3.35% Cum. . . . .	533,135	529,103	.02
15,000	Public Service Co., of New Hampshire, 4.50% Div. Series Cum. . . . .	1,500,000	1,410,000	.05
5,000	Rochester Gas & Electric Corp., 4¾% Cum., Series 1 . . . . .	500,000	497,500	.02
4,500	San Diego Gas & Electric Co., 5% Cum. . . . .	107,875	94,500	.01
16,463	South Carolina Electric & Gas Co., 4.50% Cum. . . . .	805,255	775,819	.03
4,400	South Carolina Electric & Gas Co., 5% Cum. . . . .	228,492	228,800	.01
1,670	Texas Electric Service Co., \$4.56 Cum. . . . .	184,535	161,155	.01

**INVESTORS MUTUAL, INC.**  
**Investments in Securities, Continued**

(Continued)

SHARES	NAME OF ISSUER AND TITLE OF ISSUE	COST	MARKET VALUE (a)	PERCENTAGE OF TOTAL MARKET VALUE
7,400	Texas Power & Light Co., \$4.56 Cum. . . . .	\$ 832,834	\$ 712,250	.03%
8,800	Texas Power & Light Co., \$4.84 Cum. . . . .	878,152	893,200	.03
9,000	Wisconsin Power & Light Co., 4.76% Cum. . . . .	900,000	909,000	.03
		<u>\$ 49,581,402</u>	<u>\$ 49,842,678</u>	<u>1.72%</u>
4,300(b)	Atlanta Gas Light Co., 4.60% Cum. . . . .	\$ 430,000	\$ 408,500	.01%
12,600	Colorado Interstate Gas Co., 5% Series Cum. . . . .	1,194,773	1,272,600	.04
25,000(b)	El Paso Natural Gas Co., 4 3/4% Conv. 2nd . . . . .	2,500,000	2,437,500	.08
7,423	El Paso Natural Gas Co., 5.36% Cum. . . . .	742,300	749,723	.03
5,472	El Paso Natural Gas Co., 5.50% Cum. . . . .	558,144	558,144	.02
24,800	El Paso Natural Gas Co., 5.50% Cum., 1956 Series . . . . .	2,463,132	2,560,600	.09
6,800	El Paso Natural Gas Co., 5.65% Cum. . . . .	680,000	700,400	.02
18,355	El Paso Natural Gas Co., 6.40% Cum., 2nd Series 1957 . . . . .	1,835,500	1,927,275	.07
6,500(b)	Kansas-Nebraska Natural Gas Co., Inc., 5.65% Series Cum. . . . .	650,000	674,000	.02
52,300	Laclede Gas Co., 5% Cum. Series B . . . . .	1,307,500	1,327,113	.05
78,374(b)	Lowell Gas Co., 5 1/4% Cum. . . . .	1,959,350	2,008,334	.07
29,128(b)	Lowell Gas Co., 5.40% Cum. . . . .	728,200	757,328	.03
7,000(b)	Michigan Gas Utilities Co., 5% Series A Cum. . . . .	700,000	700,000	.02
20,000	Natural Gas Pipeline Co. of America, 5 1/2% . . . . .	2,000,000	2,111,651	.07
9,600	Northern Illinois Gas Co., 5% Cum. . . . .	969,600	996,000	.03
3,625	Northern Natural Gas Co., 5 1/2% Cum. . . . .	362,500	371,641	.01
46,259	Northern Natural Gas Co., 5.60% Cum. . . . .	4,625,900	4,875,417	.17
17,100	Northern Natural Gas Co., 5.80% Cum. . . . .	1,710,000	1,831,003	.06
7,608	Oklahoma Natural Gas Co., 4 3/4% Cum. A . . . . .	417,264	378,498	.01
18,400	Pacific Lighting Corp., \$4.40 Cum. . . . .	1,849,481	1,720,400	.06
40,000(b)	Piedmont Natural Gas Co., 5% . . . . .	4,000,000	4,000,000	.14
18,000(b)	Piedmont Natural Gas Co., 5.50% Series Cum. . . . .	1,800,000	1,867,500	.06
2,388	Southern Union Gas Co., 4 1/4% Cum. . . . .	216,944	212,532	.01
4,315	Southern Union Gas Co., 5% Cum. . . . .	431,500	427,185	.02
28,300(b)	Southern Union Gas Co., 5.05% Cum. . . . .	2,830,000	2,921,975	.10
7,200	Southern Union Gas Co., 5.35% Cum. . . . .	720,000	734,400	.03
23,000(b)	Tenneco Corp., 6% 1st . . . . .	2,300,000	2,394,875	.08
13,800	Tennessee Gas Transmission Co., 4.60% Cum. . . . .	1,458,340	1,359,300	.05
10,000	Tennessee Gas Transmission Co., 4.64% Cum. . . . .	1,031,000	985,000	.03
2,400	Tennessee Gas Transmission Co., 4.65% Cum. . . . .	228,177	236,400	.01
25,575	Tennessee Gas Transmission Co., 4.72% Cum. Conv. 2nd . . . . .	2,557,500	2,506,350	.09
16,000	Tennessee Gas Transmission Co., 5.04% Cum. . . . .	1,600,000	1,616,000	.06
27,100	Tennessee Gas Transmission Co., 5.08% Cum. . . . .	2,710,000	2,737,100	.09
9,300	Tennessee Gas Transmission Co., 5.12% Cum. . . . .	933,488	939,300	.03
47,000	Tennessee Gas Transmission Co., 5.24% Cum. . . . .	4,700,000	4,770,500	.16
9,000	Tennessee Gas Transmission Co., 5.25% Cum. . . . .	900,000	909,000	.03
20,000(b)	Texas Eastern Transmission Corp., 5% 1964 Series . . . . .	2,000,000	2,000,000	.07
60,000(b)	Texas Eastern Transmission Corp., 5% Cum., 2nd 1964 Series . . . . .	6,000,000	6,000,000	.21
30,000	Texas Eastern Transmission Corp., 5.52% . . . . .	3,000,000	3,090,000	.11
49,200	Texas Eastern Transmission Corp., 5.60% Series Cum. . . . .	4,916,600	5,067,600	.18



**INVESTORS MUTUAL, INC.**  
**Investments in Securities, Continued**

(continued)

SHARES	NAME OF ISSUER AND TITLE OF ISSUE	COST	MARKET VALUE (a)	PERCENTAGE OF TOTAL MARKET VALUE
9,700	Texas Eastern Transmission Corp., 6.70% Series Cum. . . . .	\$ 970,000	\$ 1,028,200	.04%
6,614	Texas Gas Transmission Corp., 5.40% Cum. . . . .	661,400	676,771	.02
16,600	Transcontinental Gas Pipe Line Corp., \$4.90 Cum. . . . .	1,654,375	1,655,850	.06
80,000(b)	Transcontinental Gas Pipe Line Corp., \$5.00 Cum. . . . .	8,000,000	8,000,000	.28
20,000	Transcontinental Gas Pipe Line Corp., \$5.26 Cum. . . . .	2,000,000	2,060,000	.07
71,162	Transcontinental Gas Pipe Line Corp., \$5.60 Cum. . . . .	7,117,500	7,454,220	.26
2,500	Washington Gas Light Co., \$4.25 Cum. . . . .	253,012	220,000	.01
9,333(b)	Western Gas Service Co., 6% Cum. Series A . . . . .	933,300	977,632	.03
		<u>\$ 93,606,780</u>	<u>\$ 95,213,817</u>	<u>3.29%</u>
8,400(b)	Alexandria Water Co., 5.05% Cum. . . . .	\$ 840,000	\$ 873,600	.03%
28,000(b)	California Interstate Telephone Co., 5.25% Series Cum. . . . .	560,000	574,000	.02
7,125(b)	Commonwealth Water Co., 5 1/4% 1st Series of 1958 . . . . .	712,500	749,906	.03
20,000(b)	General Waterworks Corp., 6% Cum. . . . .	2,000,000	2,095,000	.07
12,900(b)	Hackensack Water Co., 5% Series Cum. . . . .	1,290,000	1,354,500	.05
5,800	Pennsylvania Gas & Water Co., 4.10% Cum. . . . .	481,971	501,700	.02
13,000(b)	St. Louis County Water Co., 4.50% Cum. Series A . . . . .	1,300,000	1,170,000	.04
7,481(b)	South Pittsburgh Water Co., 4.70% Cum. . . . .	748,100	725,657	.02
8,800(b)	South Pittsburgh Water Co., 5 1/4% Cum. . . . .	880,000	926,200	.03
		<u>\$ 8,812,571</u>	<u>\$ 8,970,563</u>	<u>.31%</u>
10,000	Carolina, Clinchfield and Ohio Ry., 5% Gtd. . . . .	\$ 958,222	\$ 1,047,500	.04%
12,000	Cleveland & Pittsburgh R. R. Co., 7% Reg. Gtd. . . . .	829,576	861,000	.03
31,800	Kansas City Southern Industries, Inc., 4% Non-Cum. . . . .	571,372	667,800	.02
79,500	Southern Ry. Co., 5% Non-Cum. . . . .	1,425,619	1,599,938	.05
5,800	Wabash R. R. Co., 4 1/2% Cum. . . . .	400,383	548,825	.02
13,508	Wheeling & Lake Erie Ry. Co., \$5.75 Gtd. . . . .	1,558,445	1,637,845	.06
		<u>\$ 5,743,617</u>	<u>\$ 6,362,908</u>	<u>.22%</u>
	Total preferred stocks . . . . .	<u>\$ 190,735,688</u>	<u>\$ 194,008,566</u>	<u>6.70%</u>

**INVESTORS MUTUAL, INC.**  
**Investments in Securities, Continued**

PRINCIPAL AMOUNT	NAME OF ISSUER AND TITLE OF ISSUE	COST	MARKET VALUE (a)	PERCENTAGE OF TOTAL MARKET VALUE
\$ 900,000(b)	A. J. Armstrong Co., Inc., 5½% Sub. Notes, 2/1/74 . . . \$	900,000	\$ 909,000	.03%
1,700,000(b)	A. J. Armstrong Co., Inc., 5¾% Jr. Sub. Notes, 11/1/77 . . . . .	1,700,000	1,712,750	.06
1,200,000(b)	A. J. Armstrong Co., Inc., 6¼% Jr. Sub. Notes, 3/1/74 . . . . .	1,200,000	1,225,500	.04
700,000(b)	Civic Finance Corp., 6½% Senior Note, 5/1/72 . . .	703,500	731,500	.03
2,000,000(b)	Commercial Discount Corp., 5½% Sr. Note, 12/1/75 .	2,000,000	2,045,000	.07
1,200,000(b)	Commercial Discount Corp., 5¾% Jr. Sub. Note, 3/1/75 . . . . .	1,200,000	1,200,000	.04
3,500,000(b)	Crompton-Richmond Co., Inc. Factors, 5½% Sr. Sub. Notes, 8/1/78 . . . . .	3,500,000	3,500,000	.12
1,920,000(b)	Heller (Walter E.) & Co., 4¾% Sr. Notes, 7/1/71 . .	1,920,000	1,891,200	.07
3,250,000(b)	Heller (Walter E.) & Co., 4¾% Sr. Notes, 4/1/79 . .	3,250,000	3,221,563	.11
540,000(b)	Heller (Walter E.) & Co., 5% Jr. Sub. Notes, 4/1/71 .	540,000	533,925	.02
640,000(b)	Heller (Walter E.) & Co., 5¼% Sr. Deb., 4/1/73 . . .	640,000	646,400	.02
1,575,000(b)	Heller (Walter E.) & Co., 5¼% Sub. Notes, 5/1/76 . .	1,575,000	1,575,000	.05
2,000,000(b)	Heller (Walter E.) & Co., 5¼% Sub. Notes, 4/1/77 . .	2,000,000	2,000,000	.07
2,700,000(b)	Heller (Walter E.) & Co., 5¾% Sr. Deb., 2/1/74 . . .	2,700,000	2,743,875	.10
1,125,000(b)	Heller (Walter E.) & Co., 5¾% Jr. Sub. Notes, 5/1/76 . . . . .	1,125,000	1,132,031	.04
1,750,000(b)	Heller (Walter E.) & Co., 5¾% Jr. Sub. Notes, 4/1/77 . . . . .	1,750,000	1,763,125	.06
320,000(b)	Heller (Walter E.) & Co., 5¾% Sub. Notes, 4/1/73 . .	320,000	326,000	.01
3,500,000(b)	Mack Financial Corp., 5¾% Prom. Note, 6/1/72 . . .	3,500,000	3,574,375	.12
3,500,000(b)	Mercantile Financial Corp., 5% Sr. Notes, 6/1/72 . .	3,500,000	3,434,375	.12
1,000,000(b)	Mercantile Financial Corp., 5¾% Sr. Sub. Notes, 2/1/80 . . . . .	1,000,000	981,250	.03
900,000(b)	Mercantile Financial Corp., 5¾% Sr. Notes, 10/1/73 .	900,000	913,500	.03
150,000(b)	Talcott (James), Inc., 5¼% Cap. Notes Series A, 4/1/66 . . . . .	150,000	149,813	.01
1,500,000(b)	Talcott (James), Inc., 5.20% Sub. Notes, 4/1/77 . . .	1,500,000	1,496,250	.05
1,750,000(b)	Talcott (James), Inc., 5½% Cap. Note, 4/1/77 . . .	1,750,000	1,750,000	.06
2,700,000(b)	Talcott (James), Inc., 5¾% Cap. Notes, 12/1/75 . . .	2,673,000	2,750,625	.10
2,500,000(b)	Talcott (James), Inc., 5¾% Cap. Notes, 10/1/76 . . .	2,500,000	2,550,000	.09
400,000(b)	Talcott (James), Inc., 6% Cap. Notes Series B, 4/1/69 . . . . .	400,000	405,500	.01
		<u>\$ 44,896,500</u>	<u>\$ 45,162,557</u>	<u>1.56%</u>
\$ 750,000(b)	Acceptance Finance Corp., 6% Jr. Sub. Note, 1/15/78 . . . . . \$	750,000	\$ 750,000	.03%
600,000(b)	American Credit Corp., 5% Prom. Note, 7/1/71 . . .	600,000	600,000	.02
1,500,000(b)	American Credit Corp., 5½% Jr. Sub. Notes, 4/1/78 .	1,500,000	1,488,750	.05
1,050,000(b)	American Credit Corp., 5.90% Cap. Deb. Series D, 8/1/72 . . . . .	1,050,000	1,060,500	.04
100,000(b)	American Credit Corp., 6% Cap. Deb. B, 8/1/70 . . .	100,000	100,500	.01
214,000(b)	American Investment Co., 3¾% Notes, 10/1/66 . . .	211,860	212,395	.01
3,400,000(b)	American Investment Co., 4¼% Prom. Notes, 6/1/71 . . . . .	3,400,000	3,344,750	.12
2,000,000(b)	American Investment Co., 5% Sub. Note, 6/1/84 . . .	2,000,000	1,975,000	.07
2,250,000(b)	American Investment Co., 5¼% Cap. Notes, 6/1/84 .	2,250,000	2,221,875	.08

**INVESTORS MUTUAL, INC.**  
**Investments in Securities, Continued**

(continued)

BONDS (Continued)				PERCENTAGE OF TOTAL MARKET VALUE
PRINCIPAL AMOUNT	NAME OF ISSUER AND TITLE OF ISSUE	COST	MARKET VALUE (e)	
Consumer Credit, continued				
\$1,050,000(b)	American Investment Co., 5½% Sub. Notes, 10/1/71 . S	1,050,000	\$ 1,057,875	.04%
3,000,000(b)	American Investment Co., 5¼% Cap. Notes, 10/1/81 .	3,000,000	3,093,750	.11
1,000,000(b)	Associates Investment Co., 4¾% S. F. Prom. Note, 1/15/67 . . . . .	1,000,000	1,002,500	.03
2,700,000(b)	Atlas Financial Corp., 6% Serial Sub. Note, 6/1/66-74 . . . . .	2,700,000	2,713,500	.09
1,800,000(b)	Atlas Financial Corp., 6½% Serial Jr. Sub. Note, 6/1/66-74 . . . . .	1,800,000	1,809,000	.06
1,380,000(b)	Avco Delta Corp., 6½% Sr. Note Ser. F, 9/15/71 . .	1,380,000	1,417,950	.05
200,000(b)	Bankers Investment Co., 5¼% Cap. Deb. Ser. A, 2/1/67 . . . . .	200,000	199,500	.01
700,000(b)	Bankers Investment Co., 6% Senior Notes, 12/1/71 . .	700,000	717,500	.02
350,000(b)	Bankers Investment Co., 6¼% Senior Notes, 5/1/72 .	346,500	360,500	.01
5,000,000(b)	Beneficial Finance Co., 5½% Sub. Notes, 7/15/80 . .	5,000,000	5,300,000	.18
5,000,000(b)	Capital Finance Corp., 4¾% Sr. Prom. Note, 5/1/72 .	5,000,000	4,968,750	.17
600,000(b)	Dial Finance Co., 5% Sr. Notes, 12/1/66 . . . . .	600,000	602,250	.02
1,000,000	Dial Finance Co., 6% Cap. Deb., 4/1/81 . . . . .	1,000,000	1,022,500	.04
1,500,000(b)	Family Finance Corp., 4½% Sr. Notes, 9/1/71 . . . .	1,500,000	1,481,250	.05
3,000,000(b)	Family Finance Corp., 4¾% Sr. Sub. Notes, 5/1/83 .	3,000,000	2,880,000	.10
1,500,000(b)	Family Finance Corp., 5% Sr. Sub. Notes, 9/1/71 . .	1,500,000	1,494,375	.05
1,200,000(b)	Family Finance Corp., 5½% Sr. Sub. Notes, 9/1/67 .	1,200,000	1,210,500	.04
2,700,000(b)	Family Finance Corp., 5½% Jr. Sub. Notes, 6/1/81 .	2,700,000	2,676,375	.09
5,000,000(b)	Federal Services Finance Corp., 5½% Senior Notes, 9/1/79 . . . . .	5,000,000	4,912,500	.17
170,000(b)	Fidelity Acceptance Corp., 6% Sr. Deb. Series C, 9/1/67 . . . . .	170,000	172,338	.01
5,000,000(b)	General Acceptance Corp., 4¾% Sr. Note, 12/1/68 . .	5,000,000	4,987,500	.17
1,892,000	General Acceptance Corp., 4¾% Sr. Deb., 8/1/71 . .	1,881,972	1,854,160	.06
1,000,000(b)	General Acceptance Corp., 5¼% Sr. Notes, 3/1/77 . .	1,000,000	1,015,000	.04
3,000,000	General Acceptance Corp., 5½% Sr. Deb., 10/1/76 . .	3,000,000	2,985,000	.10
3,550,000(b)	General Acceptance Corp., 5½% Jr. Sub. Notes, 8/1/79 . . . . .	3,550,000	3,518,938	.12
4,000,000(b)	General Acceptance Corp., 5¾% Sr. Sub. Notes, 3/1/77 . . . . .	4,000,000	4,085,000	.14
851,000	General Acceptance Corp., 6% Sr. Deb., 1/1/80 . . .	851,000	859,510	.03
1,550,000(b)	General Finance Corp., 5¼% Cap. Notes, 10/1/83 . .	1,550,000	1,520,938	.05
1,000,000(b)	General Finance Corp., 5¾% S.F. Cap. Notes, 12/1/65-80 . . . . .	971,100	1,016,250	.04
2,000,000(b)	Industrial Credit Co., St. Paul, Minn., 5% Sr. Note, 6/1/75 . . . . .	2,000,000	2,000,000	.07
2,000,000(b)	Industrial Finance & Thrift Corp., 5% Sr. Notes, 10/31/75 . . . . .	2,000,000	1,975,000	.07
1,906,300(b)	Industrial Finance & Thrift Corp., 5¾% Sr. Sub. Note, 9/30/77 . . . . .	1,906,300	1,918,214	.07
1,000,000(b)	Interstate Finance Corp., 6½% Jr. Sub. Note, 12/1/76 . . . . .	1,000,000	1,036,250	.04
664,000(b)	Interstate Securities Co., 6¼% Jr. Sub. Note, 7/1/73 .	664,000	667,320	.02
400,000(b)	ITT Aetna Finance Co., 5½% Jr. Sub. Deb. Series A, 4/1/69 . . . . .	400,000	395,500	.01
1,500,000(b)	ITT Aetna Finance Co., 5½% Sr. S.F. Note, 11/1/66-75 . . . . .	1,500,000	1,535,625	.05
550,000(b)	Laurentide Finance Corp. of California, 5¼% Sr. Sub. Notes, 11/1/79 . . . . .	550,000	545,188	.02

**INVESTORS MUTUAL, INC.**  
**Investments in Securities, Continued**

(continued)

BONDS (Continued)				
PRINCIPAL AMOUNT	NAME OF ISSUER AND TITLE OF ISSUE	COST	MARKET VALUE (a)	PERCENTAGE OF TOTAL MARKET VALUE
Consumer Credit, continued				
\$ 400,000(b)	Laurentide Finance Corp. of California, 5½% Sr. Notes, 2/1/67 . . . . .	\$ 400,000	\$ 402,000	.01%
160,000(b)	Laurentide Finance Corp. of California, 5½% Ser. B, S.F. Deb., 8/1/66 . . . . .	160,000	160,400	.01
600,000(b)	Laurentide Finance Corp. of California, 5½% Jr. Sub. Notes, 11/1/79 . . . . .	600,000	594,750	.02
1,400,000(b)	Laurentide Finance Corp. of California, 6% Senior Notes, 5/1/72 . . . . .	1,400,000	1,443,750	.05
1,300,000(b)	Laurentide Finance Corp. of California, 6% Jr. Sub. Notes, 12/15/74 . . . . .	1,300,000	1,321,125	.05
7,000,000(b)	Liberty Loan Corp., 4½% Sr. Note, 11/15/68 . . . . .	7,000,000	6,982,500	.24
2,407,000(b)	Liberty Loan Corp., 5½% Sr. Note, 10/1/70 . . . . .	2,407,000	2,449,123	.08
2,325,000(b)	Modern Homes Finance Co., 6¼% Coll. Tr. Deb. Ser. A, 4/1/74 . . . . .	2,325,000	2,325,000	.08
150,000(b)	Mossler Acceptance Co., 4¾% Sub. Notes, 11/1/66 . . . . .	150,000	149,250	.01
2,000,000(b)	Murphy Finance Co., 5% Sr. Notes, 3/1/76 . . . . .	2,000,000	1,987,500	.07
1,000,000(b)	Murphy Finance Co., 5¾% Jr. Sub. Notes, 7/1/75 . . . . .	1,000,000	1,000,000	.03
3,000,000(b)	Pacific Finance Corp., 4¾% Deb., 10/1/71. 1957 Issue . . . . .	2,960,100	2,940,000	.10
4,000,000(b)	Pacific Finance Corp., 5½% Cap. Deb., 7/1/79 . . . . .	4,000,000	3,950,000	.14
6,000,000(b)	Pacific Finance Corp., 5¾% Cap. Deb., 12/1/81 . . . . .	6,000,000	6,052,500	.21
349,000(b)	Personal Industrial Bankers, Inc., 6% Sr. Deb. Ser. A, 8/1/68 . . . . .	349,000	348,128	.01
150,000(b)	Personal Industrial Bankers, Inc., 7% Sub. Deb., A, 8/1/68 . . . . .	150,000	151,125	.01
1,440,000(b)	Pioneer Finance Co., 5¾% Sr. S.F. Deb., 12/1/65-72 . . . . .	1,440,000	1,465,200	.05
1,620,000(b)	Pioneer Finance Co., 6¼% Sub. Deb. Ser. E, 11/1/73 . . . . .	1,620,000	1,644,300	.06
1,500,000(b)	Public Loan Co., Inc., 4¾% Sr. Notes, 8/28/68 . . . . .	1,500,000	1,496,250	.05
2,100,000(b)	Ritter Finance Co., 5½% Sr. Note, 8/1/72 . . . . .	2,100,000	2,128,875	.07
1,000,000(b)	Seaboard Finance Co., 5½% S.F. Notes, 12/1/66 . . . . .	1,000,000	1,003,750	.03
1,750,000(b)	Seaboard Finance Co., 6% Cap. Notes, 9/1/71 . . . . .	1,741,720	1,778,438	.06
1,000,000(b)	Seaboard Finance Co., 6½% Cap. Notes, 1/1/81 . . . . .	1,000,000	1,041,250	.04
900,000(b)	Seaboard Finance Co., 6½% Cap. Notes, 8/1/72 . . . . .	900,000	923,625	.03
1,558,000(b)	Securities Investment Co. of St. Louis, Mo., 4¾% S.F. Deb., 6/1/68 . . . . .	1,558,000	1,526,840	.05
5,000,000(b)	Southwestern Investment Co., 4¾% Sr. Notes, 5/1/72 . . . . .	5,000,000	4,975,000	.17
1,250,000(b)	Southwestern Investment Co., 5½% Sr. Sub. Notes, 5/1/79 . . . . .	1,250,000	1,250,000	.04
1,466,000(b)	State Loan & Finance Corp., 4¾% Prom. Note, 6/1/71 . . . . .	1,466,000	1,466,000	.05
2,000,000	State Loan & Finance Corp., 5¼% Cap. Deb., 6/1/83 . . . . .	1,939,800	1,900,000	.07
1,875,000(b)	State Loan & Finance Corp., 5½% Prom. Note, 4/1/72 . . . . .	1,875,000	1,926,563	.07
375,000(b)	Stephenson Finance Co., Inc., 5% Sub. Deb. Series A, 8/1/70 . . . . .	375,000	366,563	.01
338,000(b)	Stephenson Finance Co., Inc., 6¼% Sub. Deb. Ser. B, 9/1/74 . . . . .	338,000	343,493	.01
1,000,000(b)	Sun Finance & Loan Co., 5¾% Sr. Sub. Notes, 12/1/78 . . . . .	1,000,000	1,000,000	.03
1,890,000(b)	Sun Finance & Loan Co., 6¼% Sub. Notes, 12/1/71 . . . . .	1,890,000	1,941,975	.07
3,000,000(b)	Texas Consumers Finance Corp., 5¾% Sr. Notes, 12/1/75 . . . . .	3,000,000	3,037,500	.10
200,000(b)	Thorp Finance Corp., 5% Cap. Notes Ser. A, 7/1/67 . . . . .	198,000	198,250	.01

**INVESTORS MUTUAL, INC.**  
**Investments in Securities, Continued**

(continued)

BONDS (Continued)				PERCENTAGE OF TOTAL MARKET VALUE
PRINCIPAL AMOUNT	NAME OF ISSUER AND TITLE OF ISSUE	COST	MARKET VALUE (a)	
<i>Consumer Credit, continued</i>				
\$1,000,000(b)	Thorp Finance Corp., 5½% Sub. Notes, 11/1/78. . . .	\$ 1,000,000	\$ 982,500	.03%
400,000(b)	Thorp Finance Corp., 5½% Prom. Note, 3/1/67 . . .	400,000	402,500	.01
200,000(b)	Thorp Finance Corp., 5½% Cap. Notes Series B, 7/1/67 . . . . .	200,000	199,750	.01
875,000(b)	Thorp Finance Corp., 5¾% Sub. Notes, 5/1/71 . . .	875,000	885,938	.03
		<u>\$ 148,400,352</u>	<u>\$ 148,903,787</u>	<u>5.14%</u>
<i>Other Financial</i>				
\$2,000,000(b)	First Surety Corp., 5½% Sr. Notes, 6/1/75 . . . .	\$ 2,000,000	\$ 1,950,000	.07%
1,600,000	Nacional Financiera S.A. Discount Note, 1/21/66-67 .	1,483,417	1,483,417	.05
2,250,000(b)	Northwestern Bank (North Wilkesboro, N.D.), 5% Sub. Note, 5/1/84 . . . . .	2,250,000	2,202,188	.08
500,000(b)	Ridgely, Inc., 4¾% Sec. Note, 5/1/66. . . . .	500,000	500,000	.02
4,500,000(b)	United Financial Corp. of Calif., 5¾% Sr. Notes, 4/1/75 . . . . .	4,500,000	4,449,375	.15
		<u>\$ 10,733,417</u>	<u>\$ 10,584,980</u>	<u>.37%</u>
<i>Industrial</i>				
\$1,336,000(b)	ACF Industries, Inc., 4¼% Equip. Tr., 12/15/65-68 . \$	1,336,000	\$ 1,332,660	.05%
6,720,000(b)	ACF Industries, Inc., 4.70% Equip. Tr., 6/15/66-79. .	6,720,000	6,636,000	.23
5,633,334(b)	Admiral Corp., 5.40% Prom. Note, 12/1/77 . . . . .	5,633,334	5,605,167	.19
2,750,000(b)	Admiral Corp., 5.40% Prom. Note, 9/30/79 . . . . .	2,722,142	2,732,813	.09
1,455,000(b)	Allied Supermarkets, Inc., 4¾% Prom. Note, 11/1/71. .	1,416,879	1,424,613	.05
822,000(b)	Allied Supermarkets, Inc., 5¼% Prom. Note, 11/2/71. .	822,000	819,975	.03
1,060,000	American Sugar Co., 5.30% Sub. Deb., 4/2/93 . . . .	1,123,600	1,081,200	.04
2,320,000	Automatic Retailers of America, Inc., 4¾% Sub. Deb., 3/1/83. . . . .	2,151,228	2,180,800	.08
343,000(b)	Blackships, Inc., 5% Mtge. Bonds Series E, 10/1/73. .	343,000	345,490	.01
468,000(b)	Blackships, Inc., 5% Mtge. Bonds Series F, 10/1/73. .	468,000	471,398	.02
530,000(b)	Blackships, Inc., 5% Mtge. Bonds Series G, 7/1/74 . .	530,000	533,848	.02
2,500,000(b)	Brunswick of Canada Ltd., 7¼% Coll. Tr., 12/1/70. . .	2,500,000	2,500,000	.09
11,700,000(b)	Celanese Corp. of America, 4¾% Prom. Note, 4/1/90 . . . . .	11,700,000	11,583,000	.40
5,000,000(b)	Coastal States Gas Producing Co., 5% 1st Mtge. Ser. B, 4/15/85. . . . .	5,000,000	5,000,000	.17
1,688,000(b)	Colorado Fuel & Iron Corp., 5¾% 1st Mtge. & Coll. Trust Bonds, S.F. Series, 8/1/79 . . . . .	1,688,000	1,647,910	.07
9,200,000(b)	Cowles Magazine & Broadcasting, Inc., 4¾% Prom. Note, 5/1/85. . . . .	9,200,000	9,200,000	.32
3,000,000(b)	Diners Club, Inc., 5¼% Sr. Sub. Notes, 4/1/76 . . . .	2,963,076	2,925,000	.10
10,000,000(b)	Dow Chemical Co., 4½% 25 Year Notes, 1/15/90 . . .	10,000,000	9,887,500	.34
1,218,000(b)	Home Oil Co., Ltd., 5½% Sec. Notes Series B, 9/1/71, with Warrants. . . . .	1,218,000	1,202,775	.04
1,216,000(b)	Kaiser Aluminum & Chemical Corp., 4.93% 1st Mtge., 1/1/76. . . . .	1,216,000	1,203,840	.04
1,400,000(b)	Kaiser Aluminum & Chemical Corp., 5¼% 1st Mtge., 11/1/94 . . . . .	1,389,528	1,359,750	.05
2,000,000(b)	Kaiser Cement & Gypsum Corp., 5¾% Prom. Note, 12/1/81 . . . . .	2,000,000	2,000,000	.07
3,850,000(b)	Kaiser Steel Corp., 4¾% 1st Mtge., 5/1/76 . . . . .	3,850,000	3,633,438	.13
1,375,000(b)	Kaiser Steel Corp., 5½% 1st Mtge., 11/1/84. . . . .	1,375,000	1,344,063	.05
5,760,000(b)	Kaiser Steel Corp., 5¾% Prom. Note, 5/1/81 . . . .	5,760,000	5,760,000	.20
3,450,250(b)	Mack Trucks, Inc., 5¾% Sr. Notes, 5/1/76 . . . . .	3,406,432	3,471,814	.12



**INVESTORS MUTUAL, INC.**  
**Investments in Securities, Continued**

(continued)

307755 (Continued)					PERCENTAGE OF TOTAL MARKET VALUE	
PRINCIPAL AMOUNT	NAME OF ISSUER AND TITLE OF ISSUE	COST	MARKET VALUE (a)			
<i>Industrial, continued</i>						
\$9,605,000(b)	Montgomery Ward & Co., Inc., 4½% Deb. 8/1/90 . . . \$	9,570,422	\$ 9,701,050			.33%
1,945,000(b)	North American Car Corp., 5½% Sub. S.F. Notes, 2/28/84 . . . . .	1,945,000	1,906,100			.07
3,256,415(b)	Panketrol, Ltd., 6¼% 1st Mtge. C. Gtd., 5/1/82 . . . . .	2,995,902	3,288,979			.11
2,418,000(b)	Peavey Co., 5¼% 1st Mtge., 6/30/73 . . . . .	2,418,000	2,436,135			.08
10,000,000(b)	Petroleos Mexicanos, 7% Coll. Notes, 8/1/72 . . . . .	9,930,000	10,000,000			.34
10,000,000(b)	Philadelphia & Reading Corp., 5½% Prom. Note, 3/31/82 . . . . .	10,000,000	10,125,000			.35
1,462,000(b)	Pittston Co. (The), 6¼% 1st Mtge. S.F. Notes, 10/1/82 . . . . .	1,462,000	1,527,205			.05
1,018,000(b)	St. Lawrence Corp., Ltd., 1st Mtge., 4¼% S.F. Series B, 4/15/72 . . . . .	1,018,000	987,460			.03
10,000,000(b)	Siemens & Halske A.G., 5¾% Prom. Note, 5/1/77 . . . . .	9,825,000	10,000,000			.34
394,000(b)	Southwestern Nitrochemical Corp., 5¾% 1st Mtge., 9/1/72 . . . . .	394,000	394,000			.01
933,000(b)	Southwestern Nitrochemical Corp., 7% 1st Mtge., 9/1/72 . . . . .	933,000	960,990			.03
256,000(b)	Suburban Propane Gas Corp., 5% S.F. Deb., 1/1/69 . . . . .	256,000	256,000			.01
257,000(b)	Suburban Propane Gas Corp., 5¼% S.F. Deb., 8/1/68 . . . . .	257,000	258,606			.01
6,500,000(b)	Texaco, Inc., 4½% Note, 12/15/89 . . . . .	6,500,000	6,418,750			.22
25,000,000(b)	United Airlines, Inc., 5% Notes, 5/1/85 . . . . .	25,000,000	25,000,000			.86
3,000,000	Victor Comptometer Corp., 4¾% S.F. Deb., 4/15/88 . . . . .	2,988,750	2,880,000			.10
10,000,000(b)	Jim Walter Corp., 5¾% Senior Sub. Note, 6/1/80 . . . . .	10,000,000	9,912,500			.34
12,100,000	Western Union Telegraph Co., 5% S.F. Deb., 3/1/92 . . . . .	12,139,125	12,145,375			.42
5,840,000	Western Union Telegraph Co., 5¼% S.F. Deb., 2/1/87 . . . . .	5,923,550	5,971,400			.21
2,232,000(b)	26026 Corp., 5½% Leasehold 1st Mtge. S.F., 12/1/74 . . . . .	2,232,000	2,232,000			.08
		\$ 202,319,968	\$ 202,284,604			6.99%
<i>Utilities</i>						
\$3,820,000(b)	American Water Works Co., Inc., 5½% Coll. Tr., 5/1/86 . . . . . \$	3,820,000	\$ 4,001,450			.14%
493,000(b)	California Interstate Telephone Co., 4¼% 1st Mtge., 2/1/79 . . . . .	493,000	463,420			.02
147,000(b)	California Interstate Telephone Co., 4¾% S.F. Deb., 2/1/74 . . . . .	147,000	144,428			.01
25,000,000(b)	Consolidated Edison Co. of New York, 4.60% 1st & Ref. Mtge., Ser. BB, 10/15/94 . . . . .	25,000,000	24,812,500			.86
500,000(b)	El Paso Natural Gas Co., 5% 1st Mtge., 4/1/84 . . . . .	500,000	500,000			.02
1,400,000(b)	El Paso Natural Gas Co., 5¼% S.F. Deb., 4/1/84 . . . . .	1,400,000	1,415,750			.05
1,428,000(b)	El Paso Natural Gas Co., 5¾% S.F. Deb., 5/1/79 . . . . .	1,428,000	1,451,205			.05
2,587,000(b)	El Paso Natural Gas Co., 5.50% 1st Mtge. Pipeline, 4/1/80 . . . . .	2,587,000	2,684,013			.09
986,000	Equitable Gas Co., 3¾% S.F. Deb., 3/1/70 . . . . .	936,700	916,980			.03
3,967,000(b)	Florida Gas Transmission Co., 5½% 1st Mtge. Pipeline Bonds, 7/1/79 . . . . .	3,967,000	4,026,505			.14
2,024,000(b)	General Waterworks Corp., 5½% S.F. Deb., 6/1/81 . . . . .	2,024,000	2,046,770			.07
2,700,000(b)	Greenwich Water System, Inc., 6% Coll. Trust, 11/1/94 . . . . .	2,700,000	2,865,375			.10
2,000,000	Houston Corp., 5% Sub. Deb., 8/1/68 . . . . .	1,679,839	1,975,000			.07
24,200,000(b)	Houston Natural Gas Corp., 4.70% S.F. Deb., 2/15/66-8/15/85 . . . . .	24,200,000	24,200,000			.84



**INVESTORS MUTUAL, INC.**  
**Investments in Securities, Continued**

(continued)

BONDS (Continued)					PERCENTAGE OF TOTAL MARKET VALUE
PRINCIPAL AMOUNT	NAME OF ISSUER AND TITLE OF ISSUE	COST	MARKET VALUE (a)		
<i>Utilities, continued</i>					
\$2,135,320(b)	Jamaica Water Supply Co., 5¼% S.F. Notes, 7/1/82 . S	2,135,320	\$ 2,164,681		.08%
2,609,000	Michigan Wisconsin Pipeline Co., 5½% 1st Mtge. Pipeline 6/1/80 . . . . .	2,663,058	2,739,450		.10
4,499,000	Midwestern Gas Trans. Co., 5¾% 1st Mtge. Pipeline, 6/1/80 . . . . .	4,510,679	4,543,990		.16
777,000(b)	Northern Natural Gas Co., 1st Mtge. Pipeline Bonds, 4½% Series, 6/1/73 . . . . .	777,000	772,144		.03
7,500,000(b)	Northwest Natural Gas Co., 4¾% S.F. Deb., 4/1/85 .	7,500,000	7,500,000		.26
5,000,000(b)	Northwest Natural Gas Co., 5% S.F. Deb., 6/1/82 . .	5,000,000	5,043,750		.17
952,000	Northwest Natural Gas Co., 5½% 1st Mtge., 2/1/84 .	952,000	961,520		.03
10,000,000	Pacific Gas & Electric Co., 4½% 1st & Ref. Mtge., KK, 12/1/96 . . . . .	10,000,000	9,975,000		.34
619,000	Pioneer Natural Gas Co., 5½% S.F. Deb., 3/1/77 . .	620,548	612,810		.02
4,000,000(b)	Portland General Electric Co., 4.70% 1st Mtge., 3/1/95 . . . . .	4,000,000	4,000,000		.14
1,327,000	Quebec Natural Gas Corp., 5¾% Sub. Deb., 4/1/85 .	967,524	1,134,585		.04
2,000,000(b)	Southeastern Michigan Gas Co., 5% S.F. Deb., 6/1/88 . . . . .	2,000,000	2,000,000		.07
919,000(b)	South Georgia Natural Gas Co., 4¾% 1st Mtge. Pipeline Bonds, 2/1/75 . . . . .	919,000	902,918		.03
5,000,000	Tenneco Corp., 5½% Deb., 4/1/90 . . . . .	5,067,000	4,975,000		.17
3,929,000	Tennessee Gas Transmission Co., 4¼% Deb., 9/1/74 .	4,007,580	3,870,065		.13
5,000,000	Tennessee Gas Transmission Co., 5% S.F. Deb., 4/1/82 . . . . .	5,050,000	4,925,000		.17
6,895,000	Tennessee Gas Transmission Co., 5% Deb., 12/1/84 .	6,893,375	6,722,625		.23
9,903,000	Tennessee Gas Transmission Co., 5½% S.F. Deb., 4/1/84 . . . . .	9,933,699	9,903,746		.34
5,630,000	Tennessee Gas Transmission Co., 5¼% Deb., 9/1/85 .	5,626,850	5,608,888		.19
2,092,000	Tennessee Gas Transmission Co., 5¾% 1st Mtge. Pipeline Bonds, 1/1/79 . . . . .	2,096,620	2,112,920		.07
683,000	Texas Eastern Transmission Corp., 4¾% 1st Mtge. Bonds, 3/1/77 . . . . .	679,903	662,510		.02
5,500,000	Texas Eastern Transmission Corp., 5% Deb., 10/1/83 .	5,500,000	5,390,000		.19
5,500,000	Texas Eastern Transmission Corp., 5% S.F. Deb., 5/1/84 . . . . .	5,500,625	5,335,000		.18
2,665,000	Texas Eastern Transmission Corp., 5¾% Deb., 8/1/80	2,665,000	2,691,650		.09
1,670,000	Texas Eastern Transmission Corp., 5¾% Deb., 8/1/81 . . . . .	1,655,404	1,682,525		.06
2,364,000	Texas Eastern Transmission Corp., 5½% Deb., 12/1/76 . . . . .	2,340,076	2,387,640		.08
1,645,000	Texas Eastern Transmission Corp., 5¾% 1st Mtge. Pipeline Bonds, 9/1/77 . . . . .	1,727,250	1,669,675		.06
967,000	Texas Eastern Transmission Corp., 6% Deb., 6/1/77 .	956,995	986,340		.03
5,385,000	Texas Gas Transmission Corp., 4¾% Deb., 8/1/84 . .	5,385,000	5,358,075		.19
2,439,000	Transcontinental Gas Pipeline Corp., 4¾% 1st Mtge., 1/1/84 . . . . .	2,417,667	2,402,415		.08
4,780,000	Transcontinental Gas Pipeline Corp., 4¾% 1st Mtge., 11/1/82 . . . . .	4,813,938	4,708,300		.16
3,563,000	Transcontinental Gas Pipeline Corp., 5% Ser., 1st Mtge. Pipeline Bonds, 8/1/79 . . . . .	3,556,794	3,554,093		.12
2,866,000	Transcontinental Gas Pipeline Corp., 5% Deb., 12/1/82 . . . . .	2,830,175	2,844,505		.10
630,000	Transcontinental Gas Pipeline Corp., 6½% Deb., 5/1/78 . . . . .	626,850	648,900		.02

**INVESTORS MUTUAL, INC.**  
**Investments in Securities, Continued**

(continued)

**BONDS (Continued)**

PRINCIPAL AMOUNT	NAME OF ISSUER AND TITLE OF ISSUE	COST	MARKET VALUE (a)	PERCENTAGE OF TOTAL MARKET VALUE
<i>Utilities, continued</i>				
\$1,081,000(b)	Trunkline Gas Co., 5¼% 1st Mtge. Pipeline, 11/1/79 . \$	1,081,000	\$ 1,110,728	.04%
2,500,000	Union Electric Co., 3¾% 1st Mtge., 5/1/71 . . . . .	2,343,750	2,359,375	.08
1,230,000(b)	Washington Natural Gas Co., 5½% Ser. 1st Mtge., 4/1/77 . . . . .	1,230,000	1,299,188	.05
1,638,000(b)	Washington Natural Gas Co., 5½% 1st Mtge., 10/1/79 . . . . .	1,638,000	1,715,220	.06
870,000(b)	Washington Natural Gas Co., 5¾% S.F. Deb., 10/1/79 . . . . .	867,331	912,525	.03
2,000,000(b)	Washington Water Power Co., 4¾% Deb., 3/1/70-3/1/90 . . . . .	2,000,000	2,000,000	.07
700,000(b)	Westcoast Transmission Co., Ltd., 5½% Sub. Deb. Series B, 4/1/88 . . . . .	593,187	644,875	.02
6,120,000(b)	Wisconsin River Power Co., 2¾% 1st Mtge., 8/1/77 . . . . .	5,160,066	5,156,100	.18
		<u>\$ 207,171,803</u>	<u>\$ 207,492,127</u>	<u>7.17%</u>

**BONDS**

\$1,130,000	Atlantic Coast Line R.R. Co., 4¼% Equip. Tr. Series S, 12/1/65-69 . . . . . \$	1,126,942	\$ 1,117,288	.04%
1,000,000	Baltimore & Ohio R.R. Co., 3¾% 1st Consol. Mtge. A, 8/1/70 . . . . .	937,500	937,500	.03
2,006,000	Baltimore & Ohio R.R. Co., 4¼% 1st. Consol. Mtge. C, 10/1/95 . . . . .	1,705,100	1,657,458	.06
4,426,731(b)	Bangor & Arrostook Railroad Co., 4.80% Cond. Sales Equip. Oblig., 7/1/66-79 . . . . .	4,426,731	4,426,731	.15
860,000	Boston and Maine Railroad Co., Equipment Trust Series 1, 4½%, 3/1/66-71 . . . . .	860,354	715,950	.02
570,000	Boston and Maine Railroad Co., Equipment Trust Series 1, 6%, 3/1/66-71 . . . . .	581,722	502,313	.02
829,000	Chesapeake & Ohio Ry. Co., 4¼% Equip. Tr., 8/1/66-67 . . . . .	831,714	824,855	.03
4,547,584(b)	Chesapeake & Ohio Ry. Co., 4.70% Cond. Sales Equip. Oblig., 1970-79 . . . . .	4,547,584	4,485,055	.16
360,000	Chicago, Burlington & Quincy R.R. Co., 3¾% Equip. Tr. No. 2 (1963), 12/1/65-12/1/66 . . . . .	361,175	356,850	.01
525,000	Chicago, Burlington & Quincy R.R. Co., 4% Equip. Tr. No. 3, 1/15/66-67 . . . . .	525,000	521,063	.02
990,000	Chicago & Eastern Illinois R.R. Co., 3¾% 1st Mtge. Series B, 5/1/85 . . . . .	905,850	841,500	.03
1,841,667(b)	Chicago & Eastern Illinois R.R. Co., 5% Note, 2/28/78 . . . . .	1,841,667	1,841,667	.06
770,000	Chicago & N.W. Ry. Co., 2nd Equip. Trust of 1958, 5½%, 10/15/67-73 . . . . .	770,000	796,950	.03
1,440,000(b)	Chicago & N.W. Ry. Co., 5¼% Equip. Oblig. S.A., 11/1/78 . . . . .	1,440,000	1,440,000	.05
222,000	Chicago, Rock Island & Pacific R.R. Co., 4¼% Equip. Tr. Ser. Y, 2/1/66-8/1/67 . . . . .	222,443	220,335	.01
2,457,000	Chicago, Rock Island & Pacific R.R. Co., 5½% 1st Mtge. Series C, 2/1/83 . . . . .	2,419,894	2,521,496	.08
1,159,000	Chicago, Terre Haute & Southeastern Ry. Co., 2¾%-4¼% Income Mtge., 1/1/94 . . . . .	896,908	843,173	.03
770,000	Chicago, Terre Haute & Southeastern Ry. Co., 2¾%-4¼% 1st & Ref. Mtge., 1/1/94 . . . . .	640,000	549,588	.02
4,000,000	Chicago Union Station Co., 3¾% Sr. Deb. Ser. A, 6/1/66-67 . . . . .	3,976,860	3,940,000	.14

**INVESTORS MUTUAL, INC.**  
**Investments in Securities, Continued**

(continued)

BONDS (Continued)					PERCENTAGE OF TOTAL MARKET VALUE
PRINCIPAL AMOUNT	NAME OF ISSUER AND TITLE OF ISSUE	COST	MARKET VALUE (a)		
<i>Railroads, continued</i>					
\$ 775,000	Denver & Rio Grande Western R.R. Co., 4½% Income Series A, 1/1/2018. . . . .	\$ 614,672	\$ 720,750		.03%
2,990,000(b)	Fruit Growers Express Co., 4.55% Equip. Tr., 3/15/70-74. . . . .	2,990,000	2,990,000		.10
2,990,000(b)	Fruit Growers Express Co., 4.65% Equip. Tr., 3/15/75-79. . . . .	2,990,000	2,990,000		.10
439,000	Great Northern Ry. Co., 4% 2nd Equip. Tr., 6/1/66-67. . . . .	440,594	434,061		.02
2,000,000	Gulf, Mobile & Ohio R.R. Co., 4% Gen. Mtge. Inc. B, 1/1/2044. . . . .	1,418,924	1,460,000		.05
210,000	Gulf, Mobile & Ohio R.R. Co., 4½% Equip. Tr. Series M, 8/1/67. . . . .	210,064	208,425		.01
1,500,000	Gulf, Mobile & Ohio R.R. Co., 5% Income Deb. Series A, 12/1/2056. . . . .	974,062	1,251,875		.04
2,653,933(b)	Louisiana & Arkansas Ry. Co., 4.60% Cert. of Int., 5/1/66-79. . . . .	2,653,933	2,653,933		.09
359,000	Louisville & Nashville R.R. Co., 3¾% Equip. Series FF, 6/1/66. . . . .	360,253	356,756		.01
750,000	Louisville & Nashville R.R. Co., 4½% Equip. Tr. Series GG, 10/15/65-67. . . . .	749,475	746,250		.03
2,235,000	Louisville & Nashville R.R. Co., 4½% Equip. Tr., 1/1/66-70. . . . .	2,228,952	2,207,063		.07
944,000	Minneapolis, St. Paul & S. Ste. Marie R.R. Co., 4½% 1st Mtge. Series A, Cum. Inc., 1/1/71. . . . .	872,258	883,820		.03
50,000	Missouri Pacific R.R. Co., 4% Equip. Tr. Ser. S., 11/1/65. . . . .	50,234	49,875		.01
2,750,000	Missouri Pacific R.R. Co., 4¼% 1st Mtge. Series B, 1/1/90. . . . .	1,583,532	2,375,313		.07
2,750,000	Missouri Pacific R.R. Co., 4¼% 1st Mtge. Series C, 1/1/2005. . . . .	1,573,260	2,313,438		.07
800,000	Missouri Pacific R.R. Co., 4¾% Gen. Mtge. Income Series A, 1/1/2020. . . . .	439,124	613,000		.02
1,073,000	Missouri Pacific R.R. Co., 4¾% Gen. Mtge. Income Series B, 1/1/2030. . . . .	557,825	784,631		.03
1,090,000	New York, Chicago & St. Louis R.R. Co., 4¾% Equip. Tr., 10/15/66-67. . . . .	1,093,423	1,087,275		.04
3,000,000	New York, Chicago & St. Louis R.R. Co., 4½% Income Deb., 12/31/89. . . . .	3,013,100	2,820,000		.10
120,000	Norfolk & Western Ry. Co., 4% Equip. Tr. Ser. E, 10/1/65. . . . .	120,505	119,700		.01
258,000	Norfolk & Western Ry. Co., 4% Equip. Tr. Ser. J, 5/1/66-67. . . . .	259,082	256,065		.01
900,000	Norfolk & Western Ry. Co., 4% Equip. Tr. Ser. K, 7/1/66-67. . . . .	902,520	892,125		.03
900,000	Norfolk & Western Ry. Co., 4½% Equip. Tr. Ser. K, 7/1/66-67. . . . .	897,907	893,250		.03
2,575,000	Norfolk & Western Ry. Co., 4½% Equip. Tr. Ser. L, 11/1/65-69. . . . .	2,570,350	2,552,469		.09
2,280,000	Northern Pacific Ry. Co., 4½% Equip. Tr., 1/9/66-70. . . . .	2,273,808	2,260,050		.07
8,773,674(b)	Pennsylvania R.R. Co., 4.60% Cond. Sales Equip. Oblig., 1/15/66. . . . .	8,773,674	8,707,872		.30
2,947,259(b)	Pennsylvania R.R. Co., 4¾% Cond. Sales Equip. Oblig., 3/1/70-9/1/72. . . . .	2,947,259	2,910,418		.10

**INVESTORS MUTUAL, INC.**  
**Investments in Securities, Continued**

(continued)

BONDS (Continued)					PERCENTAGE OF TOTAL MARKET VALUE
PRINCIPAL AMOUNT	NAME OF ISSUER AND TITLE OF ISSUE	COST	MARKET VALUE (a)		
<i>Railroad - continued</i>					
\$6,876,936(b)	Pennsylvania R.R. Co., 4¾% Cond. Sales Equip. Oblig., 3/1/73-9/1/79	\$ 6,876,936	\$ 6,730,801		.23%
19,999,980(b)	Pennsylvania R.R. Co., 4.75% Cond. Sales Equip. Oblig., 1965-1980	19,999,980	19,849,980		.69
1,500,000	Pennsylvania R.R. Co., 5¼% Coll. Tr., 6/1/85	1,507,500	1,563,750		.05
1,710,000	Portland Terminal Co., 6.25% 1st., 2/1/86	1,644,300	1,761,300		.06
4,101,176(b)	Railease, Inc., 4.70% Cert. of Int., 1970-79	4,101,176	4,070,417		.14
348,000	Southern Indiana Ry. Co. 2¾%-4¼% 1st Mtge., 1/1/94	282,384	249,255		.01
190,000	Southern Pacific Co., 4% Equip. Tr. Series 20, 3/1/66	191,239	189,288		.01
1,080,000	Southern Pacific Co., 4% Equip. Tr. Series 21, 5/1/66-67	1,084,790	1,071,900		.04
960,000	Southern Pacific Co., 4½% Equip. Tr. Series 22, 9/1/66-67	960,725	954,000		.03
2,077,000	Southern Pacific Co., 4% Series 23, 11/1/65-69	2,056,950	2,074,404		.07
1,084,000	Southern Pacific Co., Oregon Lines, 4½% 1st A, 3/1/77	1,080,531	1,073,160		.04
268,000	Southern Railway Co., 4% Equip. Tr. Series ZZ, 2/15/66-67	269,147	266,325		.01
856,000	Southern Railway Co., 4% Equip. Tr. Series AAA, 3/16/66-9/16/67	853,498	849,580		.03
856,000	Southern Railway Co., 4¾% Equip. Tr. Series AAA, 3/16/66-67	861,097	854,930		.03
272,000	Texas & Pacific Ry. Co., 4½% Equip. Tr. Series V, 7/1/66-67	272,000	269,960		.01
900,000	Texas & Pacific Ry. Co., 4¼% Equip. Tr. Series W, 1/1/66-70	899,186	889,875		.03
2,736,000(b)	Trailer Train Co., 4½% Cert. of Int., 4/15/66-69	2,736,000	2,722,320		.09
3,141,000(b)	Trailer Train Co., 4.85% Cert. of Int., 4/15/70-79	3,141,000	3,105,664		.11
12,320,000(b)	Trailer Train Co., 4.85% Cert. of Int., 7/15/70-79	12,320,000	12,181,400		.42
6,000,000(b)	Trailer Train Co., 4.85% Cert. of Int., 10/15/65-79	6,000,000	5,940,000		.21
2,000,000(b)	Trailer Train Co., 4.85% Cert. of Int., 12/15/79	2,000,000	1,977,500		.07
1,458,884(b)	U.S. Railway Equipment Co., 6% Secured Notes, 11/1/65-2/1/72	1,458,884	1,504,475		.05
566,848(b)	U.S. Railway Equipment Co., 6¼% Equip. Ser., 11/15/65-5/15/70	566,848	584,562		.02
1,400,000	Wabash R.R. Co., 3¼% 1st Mtge., 2/1/71	1,307,124	1,296,750		.05
1,300,000	Wabash R.R. Co., 4¼% Gen. Mtge. Income Series B, 1/1/91	1,082,406	1,170,000		.04
1,557,000	Western Maryland Ry. Co., 5½% Deb., 1/1/82	1,561,954	1,557,000		.05
		<u>\$ 147,691,889</u>	<u>\$ 148,836,782</u>		<u>5.14%</u>
<i>Other Government and Revenue Bonds</i>					
\$14,400,000(b)	City of Montreal, Canada, 5% S.F. Deb., 11/1/2004	\$ 14,400,000	\$ 14,184,000		.49%
1,922,000	Japan External Loan, 5½% S.F., 5/1/80	1,878,806	1,845,120		.06
5,000,000	Niagara Falls Bridge Commission, 5¾% Bridge Revenue Bonds, 11/1/2000	5,000,000	5,250,000		.18
2,894,000	Nippon Telegraph & Telephone Public Corp., 5¾% Gtd. Dollar Bonds, 7/15/78	2,799,945	2,662,480		.09
		<u>\$ 24,078,751</u>	<u>\$ 23,941,600</u>		<u>.82%</u>
	Total bonds	<u>\$ 785,292,680</u>	<u>\$ 787,206,437</u>		<u>27.19%</u>
	Total short-term notes	<u>\$ 66,434,630</u>	<u>\$ 66,434,630</u>		<u>2.30%</u>
	Total investment in securities	<u>\$2,203,994,318</u>	<u>\$2,895,090,893</u>		<u>100.00%</u>

**INVESTORS MUTUAL, INC.**  
**Investments in Securities, Continued**

(continued)

PRINCIPAL AMOUNT	NAME OF ISSUER AND TITLE OF ISSUE	COST	MARKET VALUE (a)	PERCENTAGE OF TOTAL MARKET VALUE

**Notes**

- (a) Securities listed on national exchanges are valued at closing market quotations at September 30, 1965. Where there were no sales on that date, the values are based upon the mean between quoted bid and asked prices. Discount notes are valued at amortized cost. The value of unlisted securities is based upon the mean between bid and asked prices according to brokers' quotations as of that date, except as otherwise indicated in note (b).
- (b) At fair value in the opinion of the Directors—not currently quoted.
- (c) Presently non-income producing.
- (d) The cost of securities for Federal income tax purposes at September 30, 1965 was \$2,204,106,825.
- (e) Investment in affiliate (as defined in Section 2(a) (3) of the Investment Company Act of 1940 to include companies 5% or more of whose voting securities are held) at September 30, 1965 was:

	COST	MARKET VALUE
130,000 shares common stock of Continental Baking Co.....	<u>\$6,437,254</u>	<u>\$6,435,000</u>

# APPLICATION

APPLICATION for shares of stock of *Investors* MUTUAL, INC. (Company)

I (we) the undersigned apply to purchase, for the payment tendered herewith, shares of the stock of the above Company, at the public offering price determined in the manner described in the prospectus.

Shares (and fractional shares) acquired by me (us) pursuant to this application and to future payments hereunder, and through reinvested dividends, shall be credited to my (our) account upon the Company books as described below, but no certificate therefor shall be issued unless requested by me (us) or unless Company deems advisable.

Each future payment hereunder shall constitute a separate application. Each application must be expressly accepted or rejected by Company at Minneapolis, Minnesota.

ADDITIONAL PURCHASE PLAN - MAY BE INCREASED AT ANY TIME				PAYMENT TENDERED WITH APPLICATION					
I (we) intend, without obligation to do so, to make additional systematic purchases of shares of Company stock in accordance with the Additional Purchase Plan indicated hereon.		AMOUNT \$	<input type="checkbox"/> MONTHLY <input type="checkbox"/> QUARTERLY <input type="checkbox"/> AS CONVENIENT						
<b>1</b> INDIVIDUAL <small>USE LINE (1)</small>	<table style="width: 100%; border: none;"> <tr> <td style="width: 33%; border: none;">FIRST NAME</td> <td style="width: 17%; border: none;">MIDDLE INITIAL</td> <td style="width: 33%; border: none;">LAST NAME</td> <td style="width: 17%; border: none;">AGE</td> </tr> </table>					FIRST NAME	MIDDLE INITIAL	LAST NAME	AGE
FIRST NAME	MIDDLE INITIAL	LAST NAME	AGE						
<b>2</b> TRUST <small>USE LINES (1) AND (2)</small>	<table style="width: 100%; border: none;"> <tr> <td style="width: 33%; border: none;">FIRST NAME</td> <td style="width: 17%; border: none;">MIDDLE INITIAL</td> <td style="width: 33%; border: none;">LAST NAME</td> <td style="width: 17%; border: none;">AGE</td> </tr> </table> <div style="display: flex; justify-content: space-between;"> <div style="width: 30%; border: none;">AS TRUSTEE FOR</div> <div style="width: 70%; border: none;">AS BENEFICIARY UNDER ATTACHED DECLARATION OF TRUST.</div> </div>					FIRST NAME	MIDDLE INITIAL	LAST NAME	AGE
FIRST NAME	MIDDLE INITIAL	LAST NAME	AGE						
<b>3</b> JOINT TENANCY <small>USE LINES (1) AND (3)</small>	<div style="border: none;">                         Registration in this form is intended to complete a gift of any contribution by either applicant in excess of his (her) pro rata share of the price and represents agreement that ownership be in such form.                     </div> <table style="width: 100%; border: none;"> <tr> <td style="width: 33%; border: none;">FIRST NAME</td> <td style="width: 17%; border: none;">MIDDLE INITIAL</td> <td style="width: 33%; border: none;">LAST NAME</td> <td style="width: 17%; border: none;">AGE</td> </tr> </table> <div style="display: flex; justify-content: space-between;"> <div style="width: 30%; border: none;">AND</div> <div style="width: 70%; border: none;">AS JOINT TENANTS WITH RIGHT OF SURVIVORSHIP AND NOT AS TENANTS IN COMMON.</div> </div>					FIRST NAME	MIDDLE INITIAL	LAST NAME	AGE
FIRST NAME	MIDDLE INITIAL	LAST NAME	AGE						
THIS APPLICATION SIGNED AT:		PERMANENT MAILING ADDRESS DESIGNATED BY APPLICANT:							
CITY		STREET							
STATE		CITY							
DATE SIGNED		STATE							
ZIP CODE		ZIP CODE							
TAXPAYER'S IDENTIFICATION NO. (SOCIAL SECURITY NO.)		INDICATE INDIVIDUAL'S SOCIAL SECURITY NUMBER SHOWN:							
		<input type="checkbox"/> NAME ON LINE 1 <input type="checkbox"/> NAME ON LINE 2 <input type="checkbox"/> OTHER (WRITE NAME) _____							

X

SIGNATURE OF APPLICANT FROM LINE 1

SIGNATURE OF APPLICANT FROM LINE 1

(DIVISIONAL SALES OFFICE) (OFFICE NUMBER)

(SIGNATURE OF BONDED SALES REPRESENTATIVE OF INVESTORS DIVERSIFIED SERVICES, INC.)

INVESTORS DIVERSIFIED SERVICES, INC. ACTS AS BROKER FOR ISSUER IN THIS TRANSACTION

DO NOT ISSUE CERTIFICATE

ISSUE CERTIFICATE - (Certificate will be mailed to applicant unless a letter signed by the applicant is attached specifying another mailing address, such as a bank, etc.)

If this is a joint application, are the tenants husband and wife? ☐ Yes ☐ No (If Yes, show husbands tax identification number only.)

DIVISIONAL SALES MANAGER

NUMBER

DISTRICT SALES MANAGER

NUMBER

SENIOR SALES REPRESENTATIVE

NUMBER

JUNIOR SALES REPRESENTATIVE

NUMBER

CERTIFICATE MAILED

REIM. CASH DATE ACCEPTED AND REMITTANCE NUMBER

FUNDS



TO BE COMPLETED IN HOME OFFICE									
CLASS	OCCUPATION CODE				SALE STATE	EMPL - EDIT			
	INDUSTRY	OCCUPATION							
TO BE COMPLETED BY REPRESENTATIVE OR DIVISIONAL SALES OFFICE									
COUNTY OF RESIDENCE	SEX	BIRTH DATE			CHECK IF APPLICANT IS A FULL TIME EMPLOYEE OR A REPRESENTATIVE OF IDS FOR 90 DAYS <input type="checkbox"/>	IS THIS APPLICATION TO BE CONSIDERED FOR A REDUCED SALES CHARGE? <input type="checkbox"/>	INVEST-O-MATIC CHECKS		
	MALE <input type="checkbox"/> FEMALE <input type="checkbox"/>	MONTH	DAY	YEAR					
COUNTY CODE NUMBER									
OCCUPATION IF HOUSEWIFE DEPENDENT ON HUSBAND SHOW HIS OCCUPATION	<input type="checkbox"/> EMPLOYEE <input type="checkbox"/> EMPLOYER		TYPE OF BUSINESS OR TRADE						
			OCCUPATION - DUTIES						
LIST OTHER RELATED FUNDS, IDS, ISA & IRL ACCOUNTS INCLUDING OTHER APPLICATIONS, IF ANY, SUBMITTED WITH THIS APPLICATION - IF NONE WRITE "NONE"								RELATIONSHIP EXPLAIN IF NOT HUSBAND, WIFE OR MINOR CHILD	
ACCOUNT NO.	NAME								

THE UNDERSIGNED HEREBY ACKNOWLEDGES RECEIPT OF

*Investors* MUTUAL, INC., PROSPECTUS AA

X  
\_\_\_\_\_  
(SIGNATURE(S) OF APPLICANT(S))

A CONFIRMATION OF YOUR PURCHASE WILL BE SENT DIRECT TO YOU BY THE HOME OFFICE

**NOTE: IF AUTHORIZATION BELOW IS NOT SIGNED, DIVIDENDS WILL BE PAID IN CASH**

### AUTHORIZATION TO REINVEST DIVIDENDS

I (we) authorize the Company to pay all cash dividends hereafter owing to me (us) on shares of Company stock acquired hereunder to Investors Diversified Services, Inc. (Investors) which, as my (our) agent, forthwith shall reinvest all such dividends in additional shares of Company stock at their asset value at the close of business on the day each such dividend is reinvested.

This authorization may be terminated at any time by written notice from the Shareholder to Investors at Minneapolis, Minnesota, and such termination shall be effective upon its receipt. Investors may terminate this agency by written notice to the shareholder.

\_\_\_\_\_  
(SIGNATURE OF APPLICANT FROM LINE 3)

X

\_\_\_\_\_  
(SIGNATURE OF APPLICANT FROM LINE 1)

## Growth of Investors Mutual

Fiscal Year Ended	Number of Shareholder Accounts	Number of Shares Outstanding*	Net Assets
Dec. 31, 1940	175	59,768	\$ 283,885
Dec. 31, 1941	4,300	947,762	4,055,521
Dec. 31, 1942	13,500	2,894,872	12,576,650
Dec. 31, 1943	18,769	5,068,476	25,825,678
Dec. 31, 1944	27,987	8,014,336	45,915,241
Sept. 30, 1945	34,947	10,655,936	66,964,088
Sept. 30, 1946	45,136	14,004,264	86,708,471
Sept. 30, 1947	55,632	17,778,270	107,068,345
Sept. 30, 1948	65,196	21,315,530	121,188,210
Sept. 30, 1949	76,228	27,038,638	157,042,597
Sept. 30, 1950	92,087	33,780,324	218,586,332
Sept. 30, 1951	113,890	43,387,620	302,597,921
Sept. 30, 1952	145,652	56,644,570	398,529,794
Sept. 30, 1953	173,690	70,145,898	472,360,654
Sept. 30, 1954	196,444	81,347,750	662,055,980
Sept. 30, 1955	220,575	93,278,668	846,644,515
Sept. 30, 1956	249,030	104,715,277	953,717,683
Sept. 30, 1957	269,433	116,589,869	996,963,820
Sept. 30, 1958	280,787	125,301,412	1,217,926,124
Sept. 30, 1959	298,244	138,564,746	1,410,653,011
Sept. 30, 1960	316,856	150,447,890	1,504,792,065
Sept. 30, 1961	327,287	159,255,201	1,843,492,415
Sept. 30, 1962	340,386	172,739,901	1,719,389,253
Sept. 30, 1963	366,916	191,986,718	2,179,693,822
Sept. 30, 1964	398,692	214,534,724	2,620,537,529
Sept. 30, 1965	429,985	239,926,645	2,940,769,421

Since its inception in 1940, Investors Mutual has grown steadily until it is now the world's largest mutual fund. While this growth has been due in major part to the sale of shares resulting from widespread public acceptance of Investors Mutual as an investment medium, it also reflects a long-term increase in the per share asset value of the Company as shown by the table on page 3.

Not only has the number of shareholders increased each year, but also the number of those shareholders who each year add to their investment in the Company, thus demonstrating their especial confidence in and satisfaction with Investors Mutual. In fact, over 73% of the Company's shareholders, holding approximately 72% of the shares outstanding, are now consistently adding to their investment in Investors Mutual, either through the reinvestment of dividends in additional shares (see page 6) or by regular systematic purchases of additional shares (see page 6).

\*Adjusted for 2-for-1 stock split on April 26, 1956.

EXECUTIVE OFFICES  
Roonoke Building  
Minneapolis, Minnesota

INDEPENDENT ACCOUNTANTS  
Peat, Marwick, Mitchell & Co.  
Minneapolis, Minnesota

CUSTODIAN  
Bank of Delaware  
Wilmington, Delaware

DISTRIBUTOR AND INVESTMENT MANAGER  
Investors Diversified Services, Inc.  
Investors Building, Minneapolis, Minnesota

THE COMPTROLLER OF THE CURRENCY

THE ADMINISTRATOR OF NATIONAL BANKS

Washington

Exhibit 4 to  
Affidavit of  
James F. Fitzpatrick  
Civ. Act. No. 1083-66

STATEMENT OF THE COMPTROLLER OF THE CURRENCY

This Office fully supports and approves of the plans of the First National City Bank of New York to establish a commingled fund for agency accounts. Since April of 1963, when Regulation 9 was revised to open the door to such activities by banks, we have sought to have removed the artificial restraints which have heretofore needlessly kept them from offering these constructive services. It is believed that a significant benefit will be derived for the public and the economy -- one which banks have been uniquely qualified to perform since they entered the fiduciary field. As we have pointed out many times previously, the collective investment of agency accounts involves no more than an economic combination of services which have heretofore been performed separately by bank trust departments.

We have been aware from its inception of the intent of First National City Bank to explore the possibility of working out a way of operating a commingled fund which satisfied the staff of the SEC that their laws were being complied with, and which did not involve prohibitive burdens upon the bank. We have approved and encouraged this course of action as we have similarly encouraged other substantial and qualified efforts to provide these services. The proposed arrangement was given the specific approval of this Office early this year, and if it is put into operation, Regulation 9 will be amended to include a general provision authorizing such funds so that specific approval will not be necessary. It is our hope that this development will lead to the resolution of the difficulties which have existed previously and that no obstacles will be raised now or in the future which would serve unduly to hamper or preclude bank operation of commingled funds for agency accounts.

August 25, 1965

The United States Treasury

5736

14

*Copy*

Exhibit 6 to  
Affidavit of  
James F. Fitzpatrick  
Civ. Act. No. 1083-66

SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C.

U.S. SECURITIES & EXCHANGE COMMISSION  
**RECEIVED**

FORM N-8B-1

APR 20 1966

REGISTRATION STATEMENT OF MANAGEMENT INVESTMENT COMPANY

Pursuant to Section 8 of

THE INVESTMENT COMPANY ACT OF 1940

COMMINGLED INVESTMENT ACCOUNT OF FIRST NATIONAL CITY BANK

(Name of Registrant)

399 Park Avenue, New York, New York

(Address of principal executive office)

Item 1. General Information.

Registrant is a collective investment fund established in the State of New York by resolution of the Board of Directors of First National City Bank on September 21, 1965 pursuant to applicable regulations of the Comptroller of the Currency.

Item 2. Development of Business.

Not applicable.

Item 3. Subclassification of Registrant.

(a) Registrant is an open-end investment company.

(b) Registrant proposes to operate as a diversified investment company.

Item 4. Fundamental Policies of the Registrant.

Registrant's fundamental policies (including, but not limited to, those with respect to the borrowing of money, the underwriting of securities of other issuers, the concentration of investments in particular industries, the purchase and sale of real estate, the purchase and sale of commodities or commodity contracts, the making of loans to other persons, the type of securities in which it may invest, the percentage of assets which it may invest in the securities of any one issuer, the percentage of voting securities of any one issuer which it may acquire, investment in companies for the purpose of exercising control or management, investment in securities of other investment companies and

portfolio turnover) are stated under the headings "Investment Policy" and "Investment Restrictions" in the Preliminary Prospectus comprising part of Registrant's Registration Statement on Form S-5 under the Securities Act of 1933, filed the same date as this Registration Statement. A copy of such Prospectus is filed herewith, and all statements of policy appearing under the headings "Investment Policy" and "Investment Restrictions" are hereby incorporated by reference in this Registration Statement and are hereby stated to be fundamental policies of Registrant.

Item 5. Policies with Respect to Security Investments.

All of Registrant's policies with respect to security investments are treated as fundamental policies under Item 4 above.

Item 6. Diversification of Assets.

Not applicable. Registrant held no securities or any other assets on the date of registration, and its first fiscal year has not ended.

Item 7. Underwriting Commitments.

Not applicable. Registrant has made no commitments as underwriter, and it is a fundamental policy of Registrant that its funds will not be used in the underwriting of securities. See Item 4 of this Registration Statement.

Item 8. Tax Status.

Registrant has not had, to date, a taxable year. Registrant has obtained a ruling of the Internal Revenue Service that it will be classi-



fied as an association taxable as a corporation for Federal income tax purposes and Registrant intends to meet the requirements of subchapter M of chapter 1 of subtitle A of the Internal Revenue Code of 1954 during the current taxable year.

Pending Legal Proceedings.

None.

Capitalization.\*

(1)	(2)	(3)	(4)
File of 1955	Amount authorized	Amount held by regis- trant or for its account	Amount out- standing ex- clusive of amount shown under (3)
of par- tition	Unlimited	None	None

\* As of date of filing--first fiscal year has not ended.

Defaults and Arrears on Senior Securities.

(a) Not applicable.

(b) Not applicable.

Condensed Financial Information.

(a) Not applicable. Registrant has no assets now and has had no assets, income or operating expenses during the last ten years.

(b) Not applicable. Registrant has no senior securities outstanding now and has had no senior securities outstanding during the last ten years.

Item 13. Persons in Control Relationship with Registrant.

Registrant does not control any company.

Registrant has no units of participation presently outstanding, and at the date of the filing of this Registration Statement, might be deemed to be controlled by its organizer and proposed investment adviser, First National City Bank, New York, New York, a national banking association, and under common control with the following other companies (exclusive of inactive companies, nominee companies and companies for the ownership or operation of real estate) which are presumed to be directly or indirectly controlled by First National City Bank within the meaning of the Investment Company Act of 1940:

Name of Company	State of Incorporation or Sovereign Power under the Laws of which Organized	Percentage of Voting Power Owned	
		by First National City Bank	by a directly or indirectly owned subsidiary of First National City Bank
First National City Overseas Investment Corporation	United States - Edge Act Corporation	100%	
First Consolidated Leasing Company	Republic of South Africa		35%
Currie Leasing Corporation Ltd.	Republic of South Africa		50%
International Banking Corporation	Connecticut	100%	
The Bank of Monrovia	Liberia		100%
The First National City Bank of New York (South Africa) Ltd.	Republic of South Africa		100%*
First National City Trust Company (Bahamas) Ltd.	Bahamas		100%*
The Mercantile Bank of Canada	Canada		100%*

International Trust Company	Quebec	100%*
H.C. Andrae & Company Limited	Canada	100%*
Andrae Equity Investment Fund Limited	Canada	20%**
New York London Trustee Co. Limited	England	75%***
Banque Internationale pour L'Afrique Occidentale	France	40%
Banco de Honduras S.A.	Honduras	51%
FXCB Services Corporation	New York	100%
Carte Blanche Corporation	Delaware	100%

\* Exclusive of directors' or shareholders' qualifying shares.

\*\* International Trust Company has an option to acquire an additional 30% of the voting securities of Andrae Equity Investment Fund Limited.

\*\*\* The remaining 25% of the voting securities of New York London Trustee Co. Limited are owned by Hill, Samuel & Co. Limited, an English company in which International Banking Corporation owns approximately a 10% interest.

As soon as units of participation are outstanding, First National City Bank will, pursuant to the provisions of the Investment Company Act of 1940, be presumed not to control Registrant, although such presumption may be rebutted. First National City Bank may be deemed to control Registrant for the purposes of the provisions of the Securities Act of 1933 relating to the liability of controlling persons notwithstanding any presumption to the contrary under the provisions of the Investment Company Act of 1940. Reference is made to the statements under the headings "purpose", "Supervision and Management", "Investment Policy",

"Units of Participation", "Admission to the  
Commingled Account", "Termination of Participa-  
tions", "Management Services", "Members of the  
Committee", "Meetings of Participants", "Elec-  
tion of Members of the Committee", "Termination  
of the Commingled Account" and "Status of the  
Commingled Account" and to the form of Authoriza-  
tion for Commingling of Agency Accounts in the  
Preliminary Prospectus comprising part of Regis-  
trant's Registration Statement on Form S-5 under  
the Securities Act of 1933, filed the same date  
as this Registration Statement, for a state-  
ment of the material facts pertinent to the  
possible existence of control of Registrant  
by First National City Bank. A copy of such  
Prospectus is filed herewith, and all state-  
ments under the headings referred to above  
and all terms of the Authorization for Commingling of Agency Accounts which are pertinent  
to the possible existence of control are here-  
by incorporated by reference in this Regis-  
tration Statement.

Item 14. Persons Owning Equity Securities of Registrant.

None (as of date of filing).

Item 15. Number of Holders of Equity Securities.

None (as of date of filing).

Item 16. Directors and Executive Officers.

All of the following persons are members of the Committee for Registrant. Registrant has no executive officers.

<u>Name and Address</u>	<u>Principal Occupations During Past Five Years</u>
Robert L. Hoguet, Jr.* 399 Park Avenue New York, New York	Executive Vice President, First National City Bank, Trust and Investment Division**
Conrad F. Ahrens 399 Park Avenue New York, New York	Vice President, First National City Bank, Trust and Investment Division, Investment Research Department**
John D. Lockton 570 Lexington Avenue New York, New York	Treasurer, General Electric Company; Chairman, Trustees of the General Electric Pension Trust and other General Electric trusts; Trustee, Elfun Trusts
Paul Saurel 60 Wall Street New York, New York	Partner, Messrs. Morris & McVeigh, Attorneys
Hulbert W. Tripp 399 Park Avenue New York, New York	Senior Vice President, First National City Bank, Trust and Investment Division (since January 1955); Chairman, Investment Committee, University of Rochester (since January 1955); prior to January 1955, Financial Vice President, University of Rochester

\* Chairman of the Committee.

\*\* Messrs. Hoguet and Ahrens have been associated with First National City Bank in responsible positions for more than the past five years, although not at all times in the positions shown.

Item 17. Members of Advisory Board of Registrant.

Not applicable.

Item 18.

Remuneration of Directors, Officers and Members of Advisory Board.

(a) Members of the Committee for Registrant who are affiliated with First National City Bank receive no remuneration from Registrant. The Committee determines the remuneration paid to the members of the Committee who are not affiliated with First National City Bank, and Registrant is reimbursed by First National City Bank. There are at present and are expected to be during Registrant's first fiscal year two such members. Although no remuneration has been paid to such members as of the date of filing, it is expected that such members will in the aggregate receive fees of \$5,000 during Registrant's first fiscal year ending August 31, 1966, and fees of \$10,000 for the succeeding full fiscal year.

(b) Not applicable. Registrant has no plan for the payment of pension or retirement benefits.

Item 19. Indemnification of Directors and Officers.

There are no contracts, arrangements or statutes under which any member of the Committee for Registrant is insured or indemnified by Registrant against any liability which any such member may incur in his capacity as such.

Article NINTH of the Articles of Association of First National City Bank, Registrant's proposed investment adviser, provides that any person, his heirs, executors or administrators, may be indemnified or reimbursed by First National City Bank for reasonable expenses actually incurred in



connection with any action, suit or proceeding,

civil or criminal, to which he or they shall be made a party by reason of his being or having been a director, officer or employee of First National City Bank or of any firm, corporation or organization which he served in any such capacity at the request of First National City Bank.

It is specifically provided, however, that no person shall be so indemnified or reimbursed in relation to any matter in such action, suit or proceeding as to which he shall finally be adjudged to have been guilty of or liable for negligence or wilful misconduct in the performance of his duties to First National City Bank. It is further provided that no person shall be so indemnified or reimbursed in relation to any matter in such action, suit or proceeding which has been made the subject of a compromise settlement except with the approval of a court of competent jurisdiction, or the holders of record of a majority of the outstanding shares of First National City Bank, or the Board of Directors of said Bank, acting by vote of directors not parties to the same or substantially the same action, suit or proceeding, constituting a majority of the whole number of the directors.

Article NINTH of the Articles of Association of First National City Bank states that the right of indemnification or reimbursement provided therein shall not be exclusive of other rights to which such person, his heirs, executors or administrators, may be entitled as a matter of law.

To the extent that indemnification by First National City Bank for liability arising under the Securities Act of 1933 or the Investment Company Act of 1940 is permitted to members of the Committee for Registrant pursuant to the foregoing or otherwise (including, without limitation, pursuant to any applicable statute or rule of law of the State of New York), Registrant is advised that the Securities and Exchange Commission is of the opinion that such indemnification is against public policy, as expressed in the Securities Act of 1933 and in the Investment Company Act of 1940, and therefore is unenforceable. In the event that a claim for such indemnification (except to the extent that such claim seeks reimbursement by First National City Bank of expenses paid or incurred in connection with the successful defense of any action, suit or proceeding) arises and the Securities and Exchange Commission is still of the same opinion, First National City Bank, in the absence of precedent deemed controlling by First National City Bank, will submit to a court of appropriate jurisdiction the question whether indemnification by First National City Bank is against public policy as expressed in the Securities Act of 1933 and in the Investment Company Act of 1940 and therefore unenforceable, and will be governed by final adjudication of such issue.

Item 20.     Employees of Registrant.

Not applicable. Registrant has no employees as of the date of filing and does not intend to have any employees, and there is no company, with relation to Registrant, of the character specified in Section 2(a)(19)(iii) of the Act.

Item 21.     Custodians of Portfolio Securities.

(a) The custodian of Registrant's portfolio securities will be First National City Bank, 399 Park Avenue, New York, New York.

(b) The arrangements under which such securities will be held are set forth in the Management Agreement, which will be executed in substantially the form attached as Exhibit D to Registrant's Registration Statement on Form S-5 under the Securities Act of 1933, filed the same date as this Registration Statement, and incorporated by reference as Exhibit 5 to this Registration Statement. The following statements relating to certain provisions of the Agreement are merely brief summaries thereof. Reference is hereby made to Exhibit 5 hereto for a full and complete statement of all the provisions thereof, to which all the following statements are subject, and such statements are qualified in their entirety by such reference. Whenever particular provisions of the Agreement are hereinafter referred to, the statements preceding such reference are qualified in their entirety thereby.

Under the Agreement, First National City Bank will at all times have custody of Registrant's assets. (Paragraph 3) Except in specified instances, securities sold for Registrant will be delivered only against payment. (Paragraph 4) First National City Bank will act as paying or disbursing agent for all funds distributed to participants. (Paragraph 6)

For all of its services under the Agreement, including its investment management and custodian services, First National City Bank will receive as of the last day of each fiscal quarter a fee of  $1/8$  of 1% of the average of the values of Registrant's net assets taken on each valuation date during such quarter. (Paragraph 10)

The Agreement will remain in force for a maximum of two years from its date of execution and will continue from year to year thereafter, but only so long as such continuance is approved at least annually either by the Committee for Registrant (including approval by a majority of the members of the Committee who are not affiliated with First National City Bank) or by the vote of participants having a majority of Registrant's units of participation. The Agreement will be terminable on 60 days' written notice by the Committee for Registrant, by the vote of participants having a majority of Registrant's units of participation or by First National City Bank, and will terminate automatically in the event of its assignment by First National City Bank or

if it shall not be approved by the vote of participants having a majority of Registrant's units of participation at the first meeting of participants.

(Paragraph 12)

Item 22.

Investment Advisers.

(a) First National City Bank, 399 Park Avenue, New York, New York, will be the investment adviser of Registrant.

(b) The following members of the Committee for Registrant (whose addresses are all 399 Park Avenue, New York, New York) are also affiliated with the proposed investment adviser of Registrant by virtue of their being officers of First National City Bank: Robert L. Hoguet, Jr., Hubert W. Tripp and Conrad F. Ahrens.

If Registrant is controlled by its proposed investment adviser, First National City Bank, the subsidiaries of First National City Bank listed in Item 13 of this Registration Statement would also be affiliated persons of Registrant by reason of common control by First National City Bank.

(c) First National City Bank will be the investment adviser of Registrant pursuant to the Management Agreement referred to in paragraph (b) of Item 21 of this Registration Statement. The following statements relating to certain provisions of the Agreement are merely brief summaries thereof. Reference is hereby made to Exhibit 5 hereto for a full and complete statement of all of the provisions thereof, to which all the following statements are subject, and such statements are

qualified in their entirety by such reference. Whenever particular provisions of the Agreement are hereinafter referred to, the statements preceding such reference are qualified in their entirety thereby.

Under the Agreement, First National City Bank will maintain a continuous investment program for Registrant, not inconsistent with Registrant's stated investment policy. First National City Bank will determine what securities are to be purchased or sold for Registrant and will execute transactions for Registrant accordingly. First National City Bank will determine what portion, if any, of Registrant's assets should be held uninvested and what portion, if any, should be invested in Government obligations. (Paragraph 1)

First National City Bank will reimburse Registrant for any compensation paid by Registrant to any member of the Committee for Registrant who is not affiliated with First National City Bank and will furnish administrative and clerical services, office space and facilities required for the operation of Registrant. First National City Bank will also pay all costs and expenses arising in connection with Registrant's organization, including its initial registration and qualification under the Federal securities laws and under other applicable regulatory requirements, but the cost of maintaining such registration and qualification (other than the cost of printing, publication and distribution of current reports to



Participants, which will be paid by First National City Bank) will be an expense of Registrant. The Agreement specifies certain other costs, including the cost of independent professional services (other than in connection with Registrant's organization) and the cost of preparation and distribution of notices to participants and proxy statements, which will be expenses of Registrant. (Paragraph 2)

The provisions of the Agreement respecting the remuneration of First National City Bank for its services (including its services as custodian) under the Agreement and the provisions of the Agreement respecting its duration and termination are described in the third and fourth subparagraphs, respectively, of paragraph (b) of Item 21 of this Registration Statement and reference is hereby made to such subparagraphs for a brief summary of such provisions.

Item 23. Business and Other Connections of Investment Advisers and Their Managements.

First National City Bank, proposed investment adviser of Registrant, is a national banking association which has been granted the right to exercise fiduciary powers. As such, it performs a wide variety of the functions of a commercial bank and trust company.

The business and other connections of a substantial nature of each director and senior officer of First National City Bank having such connections are listed below:\*

Directors and senior officers of First National City Bank, proposed investment adviser to Registrant, having other connections

Nature and principal business of other company with which connected

Nature of connection with other company

# DIRECTORS

William M. Batten

J. C. Penney Company, Inc. (operates retail stores) Chairman and Director

American Telephone and Telegraph Company Director

John E. Bierwirth

Deering Milliken Inc. (manufactures textiles) Director

Discount Corporation (discount trade bankers) Director

Dominick Fund, Inc. (closed-end investment company) Director

Engoton Production Company (produces natural gas) Director

\* Nineteen other senior officers of First National City Bank do not have outside business or other connections of a substantial nature. The term "senior officer" includes each officer with the title of senior vice president or higher.

E. Bierwirth  
(continued)

Mercantile  
Stores, Inc.  
(operates retail  
stores)

Director

National Distillers  
and Chemical Cor-  
poration and sub-  
sidiaries (produces  
whiskies and  
chemicals)

Chairman of  
the Board and  
Director

A-B Chemical Cor-  
poration (manufac-  
tures polyethylene)

Director and  
President

National Helium Cor-  
poration (manufac-  
tures helium)

Director

National Petro-  
Chemical Corpora-  
tion (manufactures  
plastics)

Director and  
President

Reactive Metals Inc.  
(produces titanium  
and zirconium)

Director

Owens-Corning Fiber-  
glas Corporation  
(manufactures  
fibrous glass  
products)

Director

Panhandle Eastern  
Pipe Line Company  
and subsidiary com-  
panies (public  
utility pipelines)

Director

Textron, Inc.  
(diversified  
manufacturer)

Director

Charles M. Brinckerhoff

A. C. F. Industries  
(diversified manu-  
facturer)

Director

The Anaconda Com-  
pany and subsidi-  
aries (mines,  
smelts and fabri-  
cates non-ferrous  
metals)

Chairman of  
the Board and  
Director

First Bank Stock  
Corporation (bank  
holding company)

Director

C. Sterling Bunnell  
Chairman Credit  
Policy Committee

BASF Colors and  
Chemicals, Inc.  
and affiliate  
(manufactures dyes  
and chemicals)

Director

Hi-Alloys Inc.  
(manufactures  
tool steels)

Director

Inspiration Con-  
solidated Copper  
Co. (produces  
electrolytic  
copper)

Director

Munich Management  
Corp. (U.S. branch  
of Munich Reinsur-  
ance Co.)

Director

Siemens Overseas  
Investments Ltd.  
(investment hold-  
ing company)

Director

Percy Chubb, 2nd

Chubb and Son Inc.  
and affiliates  
(insurance brokers  
and underwriters)

Chairman and  
Director

New Jersey Bell  
Telephone Company

Director

R. Gwin Follis

Standard Oil Com-  
pany of California  
and subsidiaries

Chairman of the  
Board and  
Director

American Gilsonite  
Company (mines  
gilsonite)

Deputy Chairman  
of the Board and  
Director

Crocker-Citizens  
National Bank of  
San Francisco

Director

J. Peter Grace

Atlantic Mutual In-  
surance Co. and  
subsidiary com-  
panies

Trustee

Brazilian Traction,  
Light & Power Com-  
pany, Ltd. (public  
utility)

Director

Magnavox Company  
(manufactures  
electronic equip-  
ment)

Director

J. Peter Grace  
(continued)

Deering Milliken, Inc. (manufactures textiles) Director

Emigrant Industrial Savings Bank Trustee

W. R. Grace & Co. and subsidiaries (manufactures chemicals and operates steamship line) President and Director

Ingersoll-Rand Company (manufactures machinery) Director

Kennecott Copper Corporation and subsidiaries (produces copper products) Director

Marine Midland Corporation (bank holding company) Director

Miller Brewing Company (brews malt beverages) Director

Northern Insurance Company of New York and subsidiaries Director

Stone & Webster, Incorporated (engineering and security underwriting) Director

Joseph A. Crazier

American Radiator & Standard Sanitary Corporation (manufactures heating and plumbing equipment) Chairman of the Board, President and Director

Bristol-Myers Company (manufactures drugs and toilet articles) Director

Johns-Manville Corporation (manufactures insulating materials) Director

The National Cash Register Co. Director

Michael L. Haider

Standard Oil Co.  
(New Jersey)

Chairman of the  
Board, Chief  
Executive  
Officer and  
Director

W. Mansfield Horner

Hartford National  
Bank & Trust Co.

Director

Southern New Eng-  
land Telephone Co.

Director

The Travelers In-  
surance Company

Director

United Aircraft  
Corporation and  
subsidiary (manu-  
factures aircraft  
and engines)

Chairman and  
Director

Henry Houghton

Corning Glass Works

Honorary Chairman  
of the Board and  
Director

Pittsburgh-Corning  
Corp. (manufactures  
cellular glass  
products)

Director

Dow-Corning Corp.  
(manufactures  
silicones)

Director

Metropolitan Life  
Insurance Company

Director

Lincoln Rochester  
Trust Company

Member Advisory  
Board

George P. Jenkins

Metropolitan Life  
Insurance Company

Chairman of  
Finance Committee  
and Director

East River Savings  
Bank

Director

American Broadcast-  
ing Companies, Inc.  
(television and  
radio networks and  
movie theatre chain)

Director

St. Regis Paper  
Company (lumber and  
paper products)

Director



John R. Kimberly

Kimberly-Clark Corporation (manufactures cellulose papers) President and Director

Wisconsin Telephone Company Director

First National Bank, Neenah, Wis. Director

Corning Glass Works Director

Northwestern Mutual Life Insurance Co. Trustee

Roger Milliken

Deering Milliken, Inc. and subsidiaries (manufactures textiles) President

W. R. Grace & Co. and subsidiaries (manufactures chemicals and operates steamship line) Director

Mercantile Stores Company, Inc. (operates retail stores) Director

Westinghouse Electric Corp. Director

George S. Moore  
President

Borg Warner Corporation (manufactures auto parts and household appliances) Director

Federal Insurance Company Director

Mercantile Stores Company, Inc. (operates retail stores) Director

Sanborn Bros (operates retail stores) Alternate Director

Union Pacific Railroad Company and subsidiaries Director

United Aircraft Corporation (manufactures aircraft and engines) Director

George S. Moore  
(continued)

United States Steel Corporation Director

Vigilant Insurance Company Director

Charles G. Mortimer

General Foods Corporation and subsidiaries (produces food products) Director and Chairman of Executive Committee

Federal Street Fund (tax-free exchange investment company) Director

Ford Motor Company Director

Socony Mobil Oil Company, Inc. Director

Bell & Howell Company (manufacturers photographic equipment) Director

Meredith Publishing Company (publisher and operator of television and radio stations) Director and Chairman of Executive Committee

Robert S. Oelman

Koppers Company, Inc. (produces crude oil products) Director

The National Cash Register Company Chairman and Director

The Ohio Bell Telephone Company Director

The Procter & Gamble Co. (produces soaps and foodstuffs) Director

The Winters National Bank & Trust Company Director

Charles C. Parlin

Shearman & Sterling (attorneys) Member

Celanese Corporation of America (manufactures synthetic fibers) Director

Compania Ontario, S.A. (import-export banking) Director

Charles C. Parlin  
(continued)

Guerlain, Inc.  
(imports perfumes)

Director

Potash Import &  
Chemical Corpora-  
tion (importing  
and trading)

Director

Schlumberger  
Limited (holds  
oil wells and  
electronic equip-  
ment companies)

Director

United States &  
Foreign Securities  
Corporation  
(closed-end invest-  
ment company)

President and  
Director

Richard S. Perkins  
Chairman of the  
Executive Committee

Allied Chemical  
Corporation  
(produces chemi-  
cals and alkalies)

Director and  
Member of Execu-  
tive Committee

Consolidated Edison  
Co. of N. Y.  
(public utility)

Trustee and  
Member of  
Finance  
Committee

Hill, Samuel & Co.  
Limited (English  
merchant banking  
firm)

Director

New York Life  
Insurance Company

Director and  
Member of  
Finance Committee

Royal-Globe In-  
surance Companies

Member of Invest-  
ment Committee

International Tele-  
phone & Telegraph  
Corporation

Director and  
Member of Execu-  
tive Committee

Phelps Dodge Cor-  
poration (produces  
copper)

Director

Southern Pacific  
Company (holds  
railway system)

Director

Alfred W. Phalen

New York Tele-  
phone Company

Chairman,  
Director and  
Member of Execu-  
tive Committee

Federal Insurance  
Company and sub-  
sidiary

Director

Kennecott Copper  
Corporation and  
subsidiary (pro-  
duces copper)

Director and  
Member of Execu-  
tive Committee

James S. Rockefeller  
Chairman

Cranston Print  
Works Company  
(finishers of  
cotton goods)

Director

The National Cash  
Register Company

Director

Pan American World  
Airways, Inc.

Director

The Anaconda Com-  
pany (mines,  
smelts and fabri-  
cates non-ferrous  
metals)

Director

Kimberly-Clark Cor-  
poration (manufac-  
tures cellulose  
papers)

Director

Northern Pacific  
Railway Company

Director

Charles H. Sommer

Monsanto Company  
and affiliates  
(produces chemi-  
cals and oils)

President, Chair-  
man of Executive  
Committee and  
Director

Trans World Air-  
lines, Inc. (oper-  
ates airway system)

Director

Liberty Mutual  
Insurance Company  
and subsidiary

Director

St. Louis Union  
Trust Company

Director

William C. Stolk

American Can Company and subsidiaries (manufactures containers) Director

Johns-Manville Corp. Director  
(manufactures insulating materials)

Leo D. Welch

Communications Satellite Corporation Director

Electric Bond & Share Company Director  
(engineering and chemical producer)

Joseph C. Wilson

Xerox Corporation President and Director  
(manufactures office copying equipment)

The Rank Organization Limited Director  
(English film producer)

Rank Xerox Limited Director  
(English manufacturer of office copying equipment)

Fuji-Xerox Corporation, Limited Director  
(Japanese manufacturer of office copying equipment)

Massachusetts Mutual Life Insurance Company Director

Lincoln-Rochester Trust Company Director

McCurdy & Company Director  
(department store)

Rochester Gas and Electric Corp. Director  
(public utility)

Small Business Investment Company of New York, Inc. Director

Rochester Savings Bank Trustee

# SENIOR OFFICERS

(Messrs. Rockefeller, Moore, Perkins and Bunnell included above as Directors)

J. Howard Laeri  
Vice Chairman

Great Northern  
Railway Company

Director

St. Regis Paper  
Company (manufac-  
tures lumber and  
paper products)

Director

Sinclair Oil  
Corporation

Director

Robert L. Hoguet, Jr.  
Executive Vice  
President

Andraze Equity  
Investment Fund  
Ltd. (Canadian in-  
vestment company)

Director

Phoenix Assurance  
Co.

Director

Edward L. Palmer  
Executive Vice  
President

Potlatch Forests,  
Inc. (produces  
lumber and deriva-  
tives)

Director

Jamaica Water  
Supply Co.

Director

William I. Spencer  
Executive Vice  
President

Electrochemical  
Processes, Inc.  
(process licen-  
sor)

Director

The Prudential  
Insurance Company  
of Great Britain

Director

Thomas R. Wilcox  
Executive Vice  
President

The Boeing Company  
(manufactures  
airplanes)

Director

Colgate-Palmolive  
Company (manufac-  
tures soaps, cos-  
metics)

Director

Mutual Life Insur-  
ance Company of  
New York

Trustee

National Distillers  
and Chemicals Corpo-  
ration (produces  
whiskies and chemi-  
cals)

Director



Walter B. Wriston  
Executive Vice  
President

General Mills, Inc.  
(produces flour and  
related food  
products)

Member of Fi-  
nance Committee  
and Director

General Electric  
Company

Director and  
Member of  
Finance  
Committee

J. C. Penney Co.  
(operates retail  
stores)

Director

G. A. Costanzo  
Senior Vice  
President

Owens-Illinois  
Corp. (manufac-  
tures glass  
products)

Director

E. Newton Cutler, Jr.  
Senior Vice  
President

American Radiator  
& Standard Sanitary  
Corp. (manufactures  
heating and plumbing  
equipment)

Director

Trust Company of  
Morris County

Director

Consumers Power  
Company (public  
utility)

Director

John Exter  
Senior Vice  
President

African-South  
African Investment  
Co., Limited (mines  
gold and diamonds)

Director

Stephen C. Eyre  
Senior Vice  
President

Bayer Foreign In-  
vestments Limited  
(produces chemicals  
and fertilizers)

Director

John P. Fitzgerald  
Senior Vice  
President

Arwood Corporation  
(manufactures cast  
metal products)

Director

Keweenaw Land Asso-  
ciation, Ltd. and  
subsidiaries (holds  
real estate)

Manager

J. R. Wood & Sons  
Inc. (manufactures  
diamond rings)

Director

Harry M. Hubshman, Jr.  
Senior Vice  
President

Canteen Corpo-  
ration  
(operates automatic  
vending machines)

Director

Transcaribbean Air-  
ways, Inc. and  
subsidiaries (oper-  
ates transportation  
systems)

Director

Henry Mueller  
Senior Vice  
President

Wyomissing Corpo-  
ration (manufac-  
tures textiles and  
paper products)

Director

Ben W. Pyne  
Senior Vice  
President

Long Island Light-  
ing Company  
(public utility)

Director

W. R. Grace & Co.  
(manufactures chem-  
icals and operates  
steamship line)

Director

Phoenix Assurance  
Company of N. Y.

Director

The United States  
Life Insurance Com-  
pany in the City of  
New York

Director

City Investing Com-  
pany (holds real  
estate)

Director

The Long Island  
Railroad Company

Director

Herbert W. Tripp  
Senior Vice  
President

Xerox Corporation  
(manufactures  
office copying  
equipment)

Director

Pitts Pfaender  
Corp. (manufac-  
tures corrosion  
resistant equip-  
ment)

Director

Rochester Gas &  
Electric Corp.  
(public utility)

Director

University of  
Rochester

Chairman of  
Investment  
Committee

Item 24. Personnel of Investment Advisers.

The number of officers (other than senior officers) and other personnel of First National City Bank, Registrant's proposed investment adviser, assigned to the Bank's Investment Advisory, Investment Research and Economics Departments (which Departments will be most directly concerned with the management of Registrant's portfolio), are, as of April 15, 1966, as follows:

<u>Class of Personnel</u>	<u>Number of Full-Time Employees</u>	<u>Number of Part-Time Employees</u>
Account supervisors, counsellors and executives	28	None
Economists, statisticians and research personnel	68	None
All other personnel	60	None

In addition, officers and employees of First National City Bank assigned to other departments will render supporting services to Registrant pursuant to the Management Agreement referred to in paragraph (b) of Item 21 of this Registration Statement.

Item 25. Remuneration of Certain Affiliated Persons.

Not applicable. Registrant has not as of the date of filing paid any remuneration to any person.

Item 26.    Capital Stock.

None. See answer to Item 28 of this Registration Statement.

Item 27.    Long-Term Debt.

None.

Item 28.    Other Securities.

Interests in Registrant are represented by units of participation of equal value. All of the units of participation have equal rights to participate in distributions of net investment income and capital gains and to participate in Registrant's assets on liquidation. Fractions of units, carried out to three decimal places, are used. Each participant is entitled to such number of votes for the election of members of the Committee for Registrant and on all other matters voted on as is equal to the number of units of participation (including fractions of units) held by such participant. There are no pre-emptive rights, conversion rights or sinking fund provisions, and units of participation are not liable to further calls or to assessment by Registrant.

The provisions governing the redemption of units of participation are contained in full under the headings "Determination of Net Asset Value" and "Termination of Participations" in the Preliminary Prospectus comprising part of

Registrant's Registration Statement on Form S-5 under the Securities Act of 1933, filed the same date as this Registration Statement. A copy of such Prospectus is filed herewith, and all statements with respect to termination of units of participation and the determination of net asset value of units of participation appearing under such headings are hereby incorporated by reference in this Registration Statement. Units of participation may be transferred only to persons who have validly appointed First National City Bank as managing agent (see the forms of Authorization for Commingling of Agency Accounts incorporated by reference as Exhibits 3(a) and 3(b) to this Registration Statement) and, in the case of transfers of less than all of the units owned by a participant, only if after the transfer the transferor and the transferee will each own units having an aggregate net asset value of not less than \$10,000.

Item 29. General Information as to Distribution of Securities.

(a) Registrant is not currently offering its units of participation. Registrant expects to raise its minimum capital of \$100,000 through an initial private offering of units of

participation at \$10 per unit to a small group of persons intending to acquire such units for investment.

(b) It is expected that initially Registrant's units of participation will be lawfully offered by Registrant through the offices of First National City Bank in New York.

Item 30. Pricing of Securities for Sale, Redemption or Repurchase.

(a) The method to be followed by Registrant in determining the price at which units of participation will be offered to the public and redeemed is described under the headings "Determination of Net Asset Value", "Admission to the Commingled Account" and "Termination of Participations" in the Preliminary Prospectus comprising part of Registrant's Registration Statement on Form S-5 under the Securities Act of 1933, filed the same date as this Registration Statement. A copy of such Prospectus is filed herewith and all statements appearing under such headings are hereby incorporated by reference in this Registration Statement.

The method of calculation of the net asset value per unit of participation is illustrated



by the following hypothetical price make-up sheet:

HYPOTHETICAL PRICE MAKE-UP SHEET

Investment at market		\$3,000,000.00
Cash and accounts receivable		2,000.00
Income receivable		<u>300.00</u>
Total		\$3,002,300.00
Accounts payable	\$ 100.00	
Accrued taxes and expenses	<u>1,100.00</u>	<u>1,200.00</u>
Value of net assets		<u>\$3,001,100.00</u>
Number of units of participation outstanding		300,000
Net asset value per unit		\$10.00366
Net asset value per unit adjusted for fractions		\$10.00

(b) There will be no sales load.

(c) As stated under the heading "Distributions and Federal Tax Status" in Registrant's Preliminary Prospectus, distributions of net long-term capital gains realized from the sale of Registrant's securities will be paid in units of participation taken at their net asset value unless the participant elects to receive payment entirely in cash.

Item 31. Principal Underwriters.

(a) The Securities and Exchange Commission regards First National City Bank, 399 Park Avenue, New York, New York, as Registrant's statutory

principal underwriter. See Items 1, 13, 16, 19, 21 and 22 of this Registration Statement as to the nature of any material relationship of First National City Bank with Registrant (other than that of principal underwriter).

(b) First National City Bank acts as investment adviser to National Variable Annuity Company of Florida relative to the assets of the National Variable Annuity Company of Florida Special Account, which is registered as an investment company under the Investment Company Act of 1940.

First National City Bank also acts as investment adviser to the Equity Annuity Life Insurance Company, which is registered as an investment company under the Investment Company Act of 1940.

First National City Bank also acts as investment adviser to the Netherlands Antilles Mutual Fund, N.V., an investment company organized under the laws of the Netherlands Antilles, the shares of which are available only to persons who are neither residents of nor citizens of the United States.

International Trust Company, a wholly-owned Canadian subsidiary of International Banking Corporation, which is in turn wholly owned by First National City Bank, furnishes investment advice with respect to American securities to International Fund Distributors Limited in its capacity as investment adviser to Advance Equity Investment Fund Limited, a Canadian investment company.

Item 32. Management of Principal Underwriters.

Information with respect to each director and senior officer (i.e., each officer with the title of senior vice president or higher) of First National City Bank is furnished in the following table:

<u>Name and principal business address</u>	<u>Positions and offices with underwriter</u>	<u>Positions and offices with Registrant</u>
<u>DIRECTORS</u>		
William M. Batten 331 Avenue of the Americas New York, New York 10019	Director	None
John E. Bierwirth 39 Park Avenue New York, New York 10016	Director	None
Charles M. Brinckerhoff 35 Broadway New York, New York 10004	Director	None
L. Sterling Bunnell 39 Park Avenue New York, New York 10022	Chairman Credit Policy Committee and Director	None
Harvey Chubb, 2nd 33 John Street New York, New York 10038	Director	None
L. Guin Pollis 25 Bush Street San Francisco, California 94120	Director	None
Peter Grace 407 West 42nd Street New York, New York 10018	Director	None

Joseph A. Grazier  
40 West 40th Street  
New York, New York 10018

Director

None

Michael L. Haider  
30 Rockefeller Plaza  
New York, New York 10020

Director

None

E. Mansfield Horner  
400 Main Street  
East Hartford, Connecticut 06103

Director

None

Scory Foughton  
717 Fifth Avenue  
New York, New York 10022

Director

None

George P. Jenkins  
One Madison Avenue  
New York, New York 10010

Director

None

John R. Kimberly  
North Lake Street  
Kenosha, Wisconsin 54957

Director

None

Roger Milliken  
234 South Fairview Avenue  
Spartanburg, South Carolina 29302

Director

None

George S. Moore  
399 Park Avenue  
New York, New York 10022

President and  
Director

None

Charles G. Mortimer  
250 North Street  
White Plains, New York 10602

Director

None

Robert S. Calman  
South Main and K Streets  
Dayton, Ohio 45409

Director

None

Charles C. Parlin  
20 Exchange Place  
New York, New York 10005

Director

None

Richard S. Perkins  
399 Park Avenue  
New York, New York 10022

Chairman of  
the Executive  
Committee and  
Director

None

Clifton W. Phalen  
140 West Street  
New York, New York 10007

Director

None

James S. Rockefeller  
399 Park Avenue  
New York, New York 10022

Chairman and  
Director

None

Charles H. Sommer  
800 N. Lindbergh Boulevard  
St. Louis, Missouri 63165

Director

None

William C. Stolk  
14 Sutton Place South  
New York, New York 10022

Director

None

Leo D. Welch  
One Rockefeller Plaza, Room 1250  
New York, New York 10020

Director

None

Joseph C. Wilson  
1250 Midtown Tower  
Rochester, New York 14604

Director

None

#### SENIOR OFFICERS

(Messrs. Rockefeller, Moore, Perkins and Burnell included  
above as Directors)

J. Howard Leri  
399 Park Avenue  
New York, New York 10022

Vice Chairman

None

A. Halsey Cook  
399 Park Avenue  
New York, New York 10022

Executive Vice  
President

None

Robert L. Hoguet, Jr.  
399 Park Avenue  
New York, New York 10022

Executive Vice  
President

Chairman, Com-  
mittee for  
Registrant

Edward L. Palmer  
399 Park Avenue  
New York, New York 10022

Executive Vice  
President

None

William I. Spencer  
55 Wall Street  
New York, New York 10015

Executive Vice  
President

None

Thomas R. Wilcox  
399 Park Avenue  
New York, New York 10022

Executive Vice  
President

None

Walter B. Wriston  
399 Park Avenue  
New York, New York 10022

Executive Vice  
President

None

Bernard T. Stott  
399 Park Avenue  
New York, New York 10022

Comptroller

None

Delmont K. Pfeffer  
55 Wall Street  
New York, New York 10015

Senior Vice  
President

None

Carl W. Desch  
399 Park Avenue  
New York, New York 10022

Senior Vice  
President and  
Cashier

None

Leif H. Olsen  
399 Park Avenue  
New York, New York 10022

Senior Vice  
President and  
Economist

None

E. Sherman Adams  
399 Park Avenue  
New York, New York 10022

Senior Vice  
President

None

John B. Arnold  
399 Park Avenue  
New York, New York 10022

Senior Vice  
President

None

E. Lansing Clute  
399 Park Avenue  
New York, New York 10022

Senior Vice  
President

None



G. A. Costanzo  
399 Park Avenue  
New York, New York 10022

Senior Vice  
President

None

E. Newton Cutler, Jr.  
399 Park Avenue  
New York, New York 10022

Senior Vice  
President

None

Loren A. Erickson  
399 Park Avenue  
New York, New York 10022

Senior Vice  
President

None

John Exter  
399 Park Avenue  
New York, New York 10022

Senior Vice  
President

None

Stephen C. Eyre  
399 Park Avenue  
New York, New York 10022

Senior Vice  
President

None

Robert W. Feagles  
399 Park Avenue  
New York, New York 10022

Senior Vice  
President

None

John F. Fitzgerald  
399 Park Avenue  
New York, New York 10022

Senior Vice  
President

None

Henry M. Hubshman, Jr.  
90 Park Avenue  
New York, New York 10016

Senior Vice  
President

None

James F. Jaffray  
399 Park Avenue  
New York, New York 10022

Senior Vice  
President

None

Morris O. Johnson  
399 Park Avenue  
New York, New York 10022

Senior Vice  
President

None

Ernest C. Lathrop  
399 Park Avenue  
New York, New York 10022

Senior Vice  
President

None

P. Henry Mueller  
399 Park Avenue  
New York, New York 10022

Senior Vice  
President

None

Evan W. Pyne  
399 Park Avenue  
New York, New York 10022

Senior Vice  
President

None

Juan D. Sanchez  
399 Park Avenue  
New York, New York 10022

Senior Vice  
President

None

George C. Scott  
399 Park Avenue  
New York, New York 10022

Senior Vice  
President

None

Joseph P. Shaw  
399 Park Avenue  
New York, New York 10022

Senior Vice  
President

None

John C. Slagle  
55 Wall Street  
New York, New York 10015

Senior Vice  
President

None

John E. Thilly  
399 Park Avenue  
New York, New York 10022

Senior Vice  
President

None

Eulbert W. Tripp  
399 Park Avenue  
New York, New York 10022

Senior Vice  
President

Member, Com-  
mittee for  
Registrant

Alfred M. Vinton  
399 Park Avenue  
New York, New York 10022

Senior Vice  
President

None

Item 33. Compensation of Underwriters.

Not applicable. First National City Bank  
has received no commissions or other compensation or  
profits from Registrant as of the date of filing.

Item 3<sup>h</sup>.

Financial Statements and Exhibits.

(a) No financial statements are filed.

Registrant has no assets or liabilities and has never had any assets or liabilities.

(b) Exhibits:

1. Resolution of Board of Directors of First National City Bank establishing Registrant -- filed as Exhibit A to Registrant's Registration Statement on Form S-5 under the Securities Act of 1933, filed the same day as this Registration Statement, to which reference is hereby made.
2. Preliminary Prospectus of Registrant -- filed as Part I to Registrant's Registration Statement on Form S-5 under the Securities Act of 1933, filed the same day as this Registration Statement, to which reference is hereby made.\*
- 3(a). Form of Authorization for Commingling of Agency Accounts (individual account) -- filed as Exhibit B-1 to Registrant's Registration Statement on Form S-5 under the Securities Act of 1933, filed the same day as this Registration Statement, to which reference is hereby made.
- 3(b). Form of Authorization for Commingling of Agency Accounts (joint account) -- filed as Exhibit B-2 to Registrant's Registration Statement on Form S-5 under the Securities Act of 1933, filed the same day as this Registration Statement, to which reference is hereby made.
- 4(a). Specimen of receipt issued to participants upon admission to original or additional participation -- filed as Exhibit C-1 to Registrant's Registration Statement on Form S-5 under the Securities Act of 1933, filed the same day as this Registration Statement, to which reference is hereby made.

\*A copy of the Final Prospectus of Registrant will be filed as Part I to Registrant's Registration Statement on Form S-5 by an amendment to such Registration Statement and when so filed is hereby incorporated by reference as an Exhibit to this Registration Statement.

- 4(b). Specimen of receipt issued to participants upon partial termination of participation -- filed as Exhibit C-2 to Registrant's Registration Statement on Form S-5 under the Securities Act of 1933, filed the same day as this Registration Statement, to which reference is hereby made.
5. Form of Management Agreement between Registrant and First National City Bank -- filed as Exhibit D to Registrant's Registration Statement on Form S-5 under the Securities Act of 1933, filed the same day as this Registration Statement, to which reference is hereby made.\*
6. Form of Agreement between Registrant and First National City Bank relating to the availability of units of participation -- filed as Exhibit E to Registrant's Registration Statement on Form S-5 under the Securities Act of 1933, filed the same day as this Registration Statement, to which reference is hereby made.\*

\* It is anticipated that the Management Agreement and the Agreement relating to the availability of units of participation will be signed prior to the proposed public offering of Registrant's units of participation. Copies of the executed Agreements will thereupon be filed as Exhibits to Registrant's Registration Statement on Form S-5 by an amendment to such Registration Statement and when so filed are hereby incorporated by reference as Exhibits to this Registration Statement.

SIGNATURE

Pursuant to the requirements of the Investment Company Act of 1940, the undersigned Registrant has caused this Registration Statement to be signed on its behalf in the City of New York and State of New York on the 20<sup>th</sup> day of April, 1966.

COMINGLED INVESTMENT ACCOUNT OF  
FIRST NATIONAL CITY BANK

By Robert L. Rogus, Jr.  
Robert L. Rogus, Jr.  
Chairman of Committee

Witness: Conrad F. Ahrens  
Conrad F. Ahrens  
Member of Committee

RECEIVED

APR 20 1966

EXHIBIT C-1

EXHIBIT C-1

FIRST NATIONAL CITY BANK—COMMINGLED INVESTMENT ACCOUNT

YOUR ACCOUNT NUMBER	DATE OF TRANSACTION	PREVIOUS UNITS OWNED		AMOUNT RECEIVED	VALUE		UNITS ACQUIRED		PRESENT UNITS OWNED	
		UNIT	FRACTION		PER UNIT	UNIT	UNIT	FRACTION	UNIT	FRACTION

PARTICIPANT'S RECEIPT—NOT TRANSFERABLE

SPECIMEN

Received from the Participant the above AMOUNT RECEIVED for investment and investment collectively with the funds of other customers of First National City Bank in the Commingled Investment Account (the "Commingled Account"), as provided for in the current Prospectus of the Commingled Account and subsequent lawful amendments thereof. Above UNITS ACQUIRED indicate the units of participation in the Commingled Account which are registered in the Participant's name on account of the funds so received.

PARTICIPANT

FIRST NATIONAL CITY BANK  
COMMINGLED INVESTMENT ACCOUNT  
FIRST NATIONAL CITY BANK  
NEW YORK, N. Y. 10017

(Note: This receipt should be surrendered to the Bank upon any termination in whole or in part of the participation evidenced hereby. In the event of partial termination, a new receipt will be issued for the appropriate number of units.)



3.3.  
104

EXHIBIT C-2

EXHIBIT C-2

FIRST NATIONAL CITY BANK-COMINGLED INVESTMENT ACCOUNT

UNITS TERMINATED	VALUE PER UNIT	CHECK ENCLOSED
FULL		
PART		

UNITS TERMINATED	PRESENT UNITS OWNED
FULL	
PART	

PREVIOUS UNITS OWNED	TERMINATION DATE
FULL	
PART	

In accordance with written notice of termination, the Participant's participation in the Comingled Investment Account ("Comingled Account") has been reduced by the number of UNITS TERMINATED, leaving registered in the Participant's name the above PRESENT UNITS OWNED, if any. In the event of complete termination, PRESENT UNITS OWNED is 000/000, and there is no continuing participation in the Comingled Account. Otherwise the participation continues to be invested and reinvested collectively with the funds of other customers of First National City Bank in the Comingled Account, as provided for in the current Prospectus of the Comingled Account and subsequent lawful amendments thereof.

PARTICIPANT'S RECEIPT - NOT TRANSFERABLE

YOUR ACCOUNT NO. \_\_\_\_\_

SPECIMEN

FIRST NATIONAL CITY BANK  
COMINGLED INVESTMENT ACCOUNT  
POST OFFICE BOX 3130, GRAND CENTRAL STATION  
NEW YORK, N.Y. 10017

(NOTE: This receipt should be surrendered to the Bank upon any termination in whole or in part of the participation evidenced hereby. In the event of partial termination, a new receipt will be issued for the appropriate number of units.)

EXHIBIT D

FIRST NATIONAL CITY BANK

RECEIVED  
APR 20 1966

April , 1966

To: Committee for Commingled Investment Account

This will confirm the arrangements for management, supervision and custody of the funds of customers invested through the Commingled Investment Account (the "Commingled Account"), as follows:

1. Investment Management Services. First National City Bank (the "Bank") will manage the investment and reinvestment of funds in the Commingled Account. Specifically, the Bank will maintain a continuous investment program for the Commingled Account, not inconsistent with its investment policy as set forth in the registration statement of the Commingled Account, as from time to time amended, under the Investment Company Act of 1940 and in the prospectus of the Commingled Account currently in use under the Securities Act of 1933. The Bank will determine what securities are to be purchased or sold for the Commingled Account and will execute transactions for the Commingled Account accordingly. The Commingled Account will have the benefit of the investment analysis and research, the review of current economic

conditions and trends and the consideration of long-range investment policy now generally available to investment advisory customers of the Bank. The Bank will determine what portion, if any, of the Commingled Account should be held uninvested and what portion, if any, should be invested in Government obligations.

2. Allocation of Costs and Expenses. Members of your Committee who are officers or employees of the Bank shall receive no separate compensation for their services for the Commingled Account. The Bank shall, however, reimburse the Commingled Account for such compensation and expenses, if any, as the Committee shall have authorized to be paid out of the Commingled Account to any member who is not an officer or employee of the Bank. The Bank will furnish, without expense to the Commingled Account, such administrative and clerical services, including the calculations of asset value, that are required to be made for the Commingled Account, and such office space and facilities as may be required, and will maintain up-to-date records of the Participants in the Commingled Account, their addresses and the extent of their participations. Except to the extent required by the Comptroller of the Currency to be paid by the Bank, the following amounts will be paid directly from the Commingled Account:

(a) brokers' commissions,

(b) cost of independent professional services, such as legal, auditing or accounting services,

(c) taxes or governmental fees attributable to transactions for the Commingled Account or to income from Commingled Account assets,

(d) cost of maintaining the registration and qualification of the Commingled Account under laws administered by the Securities and Exchange Commission or under other applicable regulatory requirements (except that the cost of printing, publication and distribution of current reports to Participants will be paid by the Bank), and

(e) cost of preparation and distribution of notices to Participants and proxy statements.

The Commingled Account shall in no event be charged with any costs, fees or other expenses arising in connection with the organization of the Commingled Account, including its initial registration and qualification under the Investment Company Act of 1940 and under the Securities Act of 1933, the initial determination of its tax status and any rulings obtained for this purpose, its initial registration and qualification under the laws of any State or its approval by the United States Comptroller of the Currency or any other Federal authority, and all of such costs, fees and expenses have been or will be paid by the Bank.

3. Custody and Safekeeping. The Bank will have custody of and keep safely at all times the assets of the Commingled Account. Securities included among such assets (other than bearer securities) shall be registered in the name of the Bank or one of its registered nominees, with or without indication of fiduciary capacity. The Bank shall be fully responsible for the fidelity and liabilities of any such nominee.

4. Transactions in the Account. All transactions of purchase or sale for the Commingled Account shall be promptly reported to the Committee by the Bank. Except for (i) exchanges of securities held in the Commingled Account for other securities in connection with any properly authorized reorganization, recapitalization, merger, consolidation, split-up or combination of shares, change of par value, conversion or otherwise, (ii) any exchange of securities in temporary form for securities in definitive form, (iii) the surrender of bonds or other obligations at maturity or when called for redemption, or (iv) the surrender of securities to representatives of all holders of securities of the same class for their protection in reorganization or similar proceedings, securities held for the Commingled Account shall be delivered only against payment

(a) in lawful money of the United States paid to the Bank or its agent,

(b) by certified check upon, or treasurer's or cashier's check of, a New York bank delivered to the Bank or its agent, or

(c) if delivery is made in New York, by credit to the account of the Bank or its agent by the New York Stock Clearing Corporation, provided, however, that the Bank or its agent may accept an uncertified check in the case of any transaction where the payment involved does not exceed \$1,000. Orders to sell securities for the Commingled Account will be placed only with established brokers or dealers. The Bank will maintain in its Custodian Department one or more cash accounts, identified as assets of the Commingled Account and subject only to draft or order by the Bank as custodian or agent. All monies received by the Bank by or for the Commingled Account shall be deposited in said account or accounts.

5. Collections. The Bank will collect, receive and deposit for the Commingled Account all income and other payments with respect to the securities in the Commingled Account, will execute ownership and other certificates and affidavits for all federal, state or local tax purposes, and will take all other action necessary in connection with the collection, receipt and deposit of such income and other payments, including but not limited to the presentation for



payment of all coupons and other income items requiring presentation on all securities which may mature or be called, redeemed, retired or otherwise become payable and the endorsement for collection by the Commingled Account of all checks, drafts or other negotiable instruments. The Bank will receive and collect all stock dividends, rights and other similar items.

6. Distributions to Participants. The Bank will, in accordance with instructions of the Committee, act as paying or disbursing agent for all funds distributed to Participants whether as income, profits, amounts payable on termination, or otherwise.

7. Proxies, Notices, etc. The Bank will promptly transmit to the Committee all notices, proxy forms and proxy statements and all other requests and announcements furnished to the Bank or its nominee as registered holder of securities in the Commingled Account and will execute and deliver or cause its nominee to execute and deliver such proxies or other authorizations in such manner as the Committee shall direct.

8. Disbursements. In so far as funds are available in the Commingled Account for the purpose, the Bank will disburse from such funds amounts required to pay such bills, statements and other obligations as are payable out of the Commingled Account pursuant to the provisions of

paragraph 2 hereof or as are otherwise approved by the Committee, such approval to be evidenced by the record of the minutes of a meeting of the Committee or by the signature of two members thereof.

9. Books, Records and Accounts. The Bank will maintain proper books of account and complete records of all transactions in the Commingled Account (whether in the investment account or the deposit account) and will render statements or copies thereof from time to time as requested by the Committee or as may otherwise be required by law. The Bank will assist in the preparation of reports to Participants, to the Securities and Exchange Commission, to the Comptroller of the Currency and to others, and in all audits of the Commingled Account.

10. Compensation of the Bank. For all services to be rendered and payments to be made by the Bank as described in this agreement, the Bank shall be entitled to withdraw from the Commingled Account as of the last day of each fiscal quarter and pay to itself a fee of  $1/8$ th of 1% of the average of the net asset values of the Commingled Account taken on each valuation date throughout the quarter for purposes of determining the asset value of units of participation, and no more. If for any reason the determination of such asset value has been lawfully suspended for a period including any such quarter, the

Bank's compensation payable at the end of such quarter shall be computed on the basis of the value of the net assets in the Commingled Account as last determined prior to such quarter.

11. Avoidance of Inconsistent Positions. In connection with purchases or sales of securities for the Commingled Account, neither the Bank nor any of its directors, officers or employees will act as a principal or agent or receive any commissions. The Bank will not itself become a Participant in the Commingled Account. Where the Bank is called upon to give advice to its customers concerning the Commingled Account, it will act solely as investment adviser for such customers with disclosure of the position of the Bank with respect to the Commingled Account.

12. Duration and Termination. This Agreement shall remain in force until December 31, 1967, and from year to year thereafter, but only so long as such continuance is approved at least annually either by the Committee, including specific approval by a majority of the Committee who are not persons affiliated with the Bank, or by the vote of Participants having a majority interest in the Commingled Account. This agreement may, on 60 days' prior written notice, be terminated at any time without the payment of any penalty, by the Committee, by the vote of Participants having a majority interest in the Commingled

Account, or by the Bank. This agreement shall automatically terminate in the event of its assignment by the Bank or if it shall not be approved by Participants having a majority interest in the Commingled Account at the first meeting of the Participants. In interpreting the provisions of this paragraph 12, the definitions contained in Section 2(a) of the Investment Company Act of 1940 (particularly the definitions of "affiliated person" and "assignment") shall be applied, except that a "majority interest" in the Commingled Account shall mean more than 50% of the units of participation into which the Commingled Account is at the time divided.

13. Amendments Hereof. No provision of this agreement may be changed, waived, discharged or terminated orally, but only by an instrument in writing signed by the Bank, and no amendment of this agreement shall be effective until approved by the vote of Participants having a majority interest in the Commingled Account.

If the foregoing conforms to your understanding of the arrangements, please so indicate by signing the form of acceptance on the accompanying counterpart hereof.

FIRST NATIONAL CITY BANK

By \_\_\_\_\_

EXHIBIT E

FIRST NATIONAL CITY BANK

April , 1966

To: Committee for Commingled Investment Account

This will confirm the arrangement for including in the Commingled Investment Account (the "Commingled Account") funds of customers of First National City Bank (the "Bank") as follows:

1. You agree that, except to the extent otherwise required by law or inconsistent with the provisions of the prospectus of the Commingled Account currently in use under the Securities Act of 1933 (the "Prospectus"), participation in the Commingled Account will at all times be available at the request of appropriate officers of the Trust and Investment Division of the Bank to persons who have validly appointed the Bank managing agent pursuant to an appropriate authorization for commingling of agency accounts as described in or attached to the Prospectus.

2. Participation in the Commingled Account will be available at net asset value, determined in accordance with

the Prospectus.

3. The Bank agrees not to give any information or to make any representations with respect to the Commingled Account other than the information and representations contained in the Prospectus or related registration statement. The Bank further agrees to comply with all applicable restrictions of governmental authorities with respect to any publicity to be given to the Commingled Account and to the means by which participations in the Commingled Account are to be made available.

4. This agreement shall remain in force until December 31, 1967, and from year to year thereafter, but only so long as such continuance is approved at least annually either by the Committee, including specific approval by a majority of the Committee who are not persons affiliated with the Bank, or by the vote of participants having a majority interest in the Commingled Account. This agreement may, on 60 days' prior written notice, be terminated at any time without the payment of any penalty by the Committee, by the vote of participants having a majority interest in the Commingled Account, or by the Bank. This agreement shall automatically terminate in the event of its assignment by the Bank. In interpreting the provisions of this paragraph 4, the definitions contained in section 2(a) of the Investment Company Act of 1940, particularly the



definitions of "affiliated person" and "assignment", shall be applied, except that a "majority interest" in the Commingled Account shall mean more than 50% of the units of participation into which the Commingled Account is at the time divided.

5. No provision of this agreement may be changed, waived, discharged or terminated orally, but only by an instrument in writing signed by the Bank.

6. This agreement has been entered into in view of the Securities and Exchange Commission's position that the Bank be regarded as statutory principal underwriter of the Commingled Account. By entering into this agreement, the Bank does not concede that it is the principal underwriter of the Commingled Account.

If the foregoing conforms to your understanding of the arrangement, please so indicate by signing the form of acceptance on the accompanying counterpart hereof.

FIRST NATIONAL CITY BANK

By \_\_\_\_\_

The foregoing is confirmed and accepted as of the

## DEBEVOISE, PLIMPTON, LYONS &amp; GATES

320 PARK AVENUE

NEW YORK, N.Y. 10022

TELEPHONE: PLAZA 2-6400

CHARLES ANGULO  
COUNSELEUROPEAN OFFICES  
8, PLACE DU PALAIS ROYAL  
PARIS 7<sup>ème</sup>TELEPHONES (468-11-51)  
(705-60-49)CABLE ADDRESSES  
DEBSTEVE NEW YORK  
DEBSTEVE PARIS

April

1966

RECEIVED

APR 20 1966

DEBEVOISE  
 PLIMPTON  
 LYONS  
 GATES  
 EDWARDS  
 HUESHAUSEN  
 ELD BANA  
 T. RICHMOND  
 EVERDELL  
 L. PIERCE, JR.  
 STARKY  
 CARLSON  
 LINDSAY  
 WELLES, JR.  
 PERKINS  
 SCHMIDT  
 HEALY, JR.  
 BARDASH  
 BILLINGS, JR.  
 HOFF  
 MATTESON  
 BRYAN  
 B. BAHN  
 PHILIP CLARK  
 COUNTRY  
 S. ADAMS, JR.  
 J. GENIESSE  
 C. WATZELL, JR.  
 S. WINTEREN

Committee for the Commingled Investment  
 Account of First National City Bank  
 399 Park Avenue  
 New York, New York 10022

Dear Sirs:

We have acted as counsel for First National City Bank in the establishment of its Commingled Investment Account (the "Commingled Account") and are counsel for the Commingled Account. We have participated in the preparation of the Registration Statement on Form S-5 filed by the Commingled Account with the Securities and Exchange Commission under the Securities Act of 1933 on April , 1966, and the amendments thereto (the "Registration Statement"), with respect to 500,000 units of participation in the Commingled Account.

In so acting, we have made such examination of law and examined such records and documents as in our judgment are necessary or appropriate to enable us to render the opinion expressed below.

We are of the following opinion:

1. The Commingled Account is a collective investment fund duly organized and existing pursuant to applicable regulations of the United States Comptroller of the Currency.

2. Upon admission of the funds of a participant to a participation in the Commingled Account,

such participant will have a lawful, fully paid and nonassessable interest in the Commingled Account.

We hereby consent to the use of this opinion as an exhibit to the Registration Statement and to the use of our name as "Legal Counsel" in the Prospectus constituting Part I of the Registration Statement. In giving such consent, we do not thereby admit that we are within the category of persons whose consent is required under Section 7 of the Securities Act of 1933 or the Rules and Regulations of the Securities and Exchange Commission thereunder.

Very truly yours,

# COMMINGLED INVESTMENT ACCOUNT of FIRST NATIONAL CITY BANK

## Purpose

To make First National City Bank's investment advisory services available to investors with \$10,000 or more:

## Investment Policy

To invest principally in common stocks and convertible securities offering opportunity for long-term growth of capital and of income.

## Participations

Participations acquired and withdrawn at net asset value.

No charge for admission or withdrawal — each dollar received participates in full.

Minimum participation accepted—\$10,000.

Optional additions—\$1,000 or more.

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THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE  
SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION  
PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS.  
ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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PROSPECTUS / JUNE 14, '66

No person has been authorized to give any information or to make any representations other than those contained in this Prospectus in connection with the offer contained in this Prospectus and, if given or made, such information or representations must not be relied upon as having been authorized. This Prospectus does not constitute an offer of, or a solicitation of an offer to acquire, units of participation in the Commingled Investment Account in any State to anyone to whom it is unlawful to make such an offer or solicitation in such State.



#### INVESTMENT ADVISER AND MANAGER

FIRST NATIONAL CITY BANK  
399 Park Avenue, New York, N. Y.

#### LEGAL COUNSEL

DEBEVOISE, PLIMPTON, LYONS & GATES  
320 Park Avenue, New York, N. Y.

#### AUDITORS

HASKINS & SELLS  
2 Broadway, New York, N. Y.

## COMMINGLED INVESTMENT ACCOUNT

of

## FIRST NATIONAL CITY BANK

399 Park Avenue, New York, New York

#### CONTENTS

Purpose .....	P.
Supervision and Management .....	
Investment Policy .....	
Investment Restrictions .....	
Units of Participation .....	
Determination of Net Asset Value .....	
Admission to the Commingled Account .....	
Termination of Participations .....	
Distributions and Federal Tax Status .....	
Management Services .....	
Brokerage Commissions .....	
Members of the Committee .....	
Meetings of Participants .....	
Election of Members of the Committee .....	
Accounting Records, Audits and Financial Reports .....	1
Termination of the Commingled Account ....	1
Status of the Commingled Account .....	1
Litigation .....	1
Financial Statements .....	1
Form of Authorization for Commingling of Agency Accounts .....	1

## COMMINGLED INVESTMENT ACCOUNT

of

### FIRST NATIONAL CITY BANK

#### Purpose

In order to make its investment advisory services and experience in managing equity portfolios available to a larger number of customers, First National City Bank (the "Bank") accepts custody and investment discretion as to accounts with a minimum amount of \$10,000 pursuant to an agreement signed by the customer authorizing the Bank to invest such funds, together with

the funds of other customers who have given the Bank the same authority, in a single collective account (the "Commingled Account") in which each such customer shares in proportion to the amount of his funds which are included. (A detachable form of authorization for an individual account is included in this Prospectus at page 13.)

#### Supervision and Management

Supervision of the Commingled Account is in the hands of a committee (the "Committee") of three officers in the Trust and Investment Division of the Bank together with two individuals who are not affiliated with the Bank. The Bank is responsible for the management of the investments in the

Commingled Account, as more fully described under the heading "Management Services", and the full facilities and resources of the Bank are available for investment analysis and research, review of current economic conditions and trends, and consideration of long-range investment policy.

#### Investment Policy

The policy of the Commingled Account is to invest in securities which offer the opportunity for long-term growth of capital and of income. Investments are made principally in common stocks and in securities convertible into common stocks, but, depending upon the interpretation by the Bank's Trust and Investment Division of business, economic and market conditions, all or part of the funds of the Commingled Account may be invested at any time in other securities, including corporate preferred stocks, bonds, debentures or other evidences of indebtedness, and obligations issued or guaranteed by the United States or an instrumentality thereof.

The funds in the Commingled Account are invested in a carefully selected portfolio diversified among various industries, and it is not intended to concentrate more than 25% of the Commingled Account in investments in any one particular industry. Purchases and sales of securities will be made on the basis of investment considerations and not for short-term profit.

The foregoing investment policies and the investment restrictions stated below may be changed only when permitted by law and consented to by the vote of a majority of the units of participation in the Commingled Account.

#### Investment Restrictions

Funds in the Commingled Account will not be used in the underwriting of securities, or applied to the purchase of real estate, interests in real estate

investment trusts, commodities or commodity contracts, or invested in companies for the purpose of exercising control or management, or invested in



the securities of investment companies. Funds in the Commingled Account will not be lent to others, although they may be applied to the purchase of bonds and debt securities of a type publicly distributed or customarily purchased by institutional investors. The Commingled Account will not acquire any security or other property if immediately after such acquisition and as a result thereof the following requirements would not be met: at least 75% of the total assets in the Commingled Account taken at market value are represented by cash and cash items, securities issued or guaranteed by the United States or an instrumentality thereof and other securities which, as to any one issuer, do not rep-

resent more than 10% of the voting securities of such issuer or more than 5% of the value of the total assets in the Commingled Account. The Commingled Account will not engage in margin transactions or short sales, participate in a joint trading account, or borrow money.

The Commingled Account is also subject to applicable rules and regulations of the United States Comptroller of the Currency and is registered under the Investment Company Act of 1940. Such registration does not involve any supervision by the Securities and Exchange Commission of the management or investment practices or policies of the Commingled Account.

#### Units of Participation

For convenience in determining the proportionate interest in the Commingled Account of each participating customer ("Participant"), the Commingled Account is divided into units of equal value, and the proportionate interest of each Participant is expressed by the number of such units allocated to such Participant. (In the case of joint accounts, the term "Participant" refers to both customers or the survivor of them.) Each unit represents an equal interest in the Commingled Account and no unit has priority or preference over any other with respect to any liquidation of the Commingled Account or any other rights or privileges. The total number of units of participation is not limited. Fractions of units, carried out to three decimal places, are used, and references to a "unit" or "units" in-

clude the fraction or fractions thereof, if any. No Participant has or is deemed to have exclusive ownership of any particular asset or investment of the Commingled Account.

A receipt is issued to each Participant showing the units of participation credited to his account. The receipts are not themselves transferable. Units of participation may be transferred only to persons who have validly appointed the Bank as managing agent, by application to the Bank accompanied by the surrender of a receipt covering the units to be transferred. Transfer of less than the total participation of a Participant is permitted only if the aggregate net asset value both of the units remaining in the transferor's account and of the units in the transferee's account after the transfer is not less than \$10,000 each.

#### Determination of Net Asset Value

The original value of each unit of participation upon the establishment of the Commingled Account was arbitrarily set at \$10, and Participants included prior to 12:00 midnight, New York time, June 13, 1966, acquired one unit for every \$10 invested. Thereafter, the net asset value of each unit is determined as of the close

of business on each of the specified valuation dates by dividing the net asset value of the Commingled Account as of the close of business on such valuation date by the number of units of participation then outstanding, the result being adjusted to the nearer cent.

The valuation dates as of which the net asset value of the Commingled Account is determined are: (a) every Tuesday (commencing Tuesday, June 14, 1966), if a day (a "Business Day") on which both the Bank and the New York Stock Exchange are open for business, or if not a Business Day, then the next succeeding day which is a Business Day, (b) any other day (commencing Wednesday, June 15, 1966) as of which the net asset value of the Commingled Account is determined for the purpose of permitting terminations as provided under the heading "Termination of Participations", and (c) in any event, on the last day of February, May, August and November in each year. The Committee shall be free at any time and from time to time to change the valuation dates described in clause (a) above upon 30 days' notice to the Participants, provided that the frequency of such valuation dates shall not be decreased to less than a weekly basis without the consent of Participants having at the time of consent more than 50% of the units of participation.

The net asset value of the Commingled Account is an amount which reflects calculations made as follows (with estimates used where necessary or appropriate):

(1) A security listed on a national stock exchange is valued on the basis of prices or quotations on such exchange on the valuation date, or if such exchange is not open on such date, then on the basis of prices or quotations on such exchange on the next preceding date on which such exchange was open. If sales are reported for the date as of which the security is to be valued pursuant to the preceding sentence, the security is valued at its last sale price on such date; if no sales are reported for such date, the security is valued at the mean of the closing asked and bid prices on such date. (If a security is listed on two or more national stock exchanges, one of which is either the New York Stock Exchange or the American Stock Exchange, the prices or quotations on the New York

Stock Exchange or American Stock Exchange are used.)

(2) A security which is not listed on a national stock exchange but which is traded in the over-the-counter market is valued at the mean of the closing asked and bid prices on the valuation date (or on the next preceding date for which such prices are available if not available for the valuation date) supplied by two or more dealers making a primary market in such security. Every other asset of the Commingled Account is valued at its fair market value as of the close of business on the valuation date, determined either by reference to values supplied by a generally accepted pricing or quotation service or by taking into consideration quotations furnished by one or more reputable sources, such as pricing or quotation services, securities dealers, brokers or investment bankers, values of comparable property, appraisals or such other information or circumstances as the Committee considers relevant.

(3) An investment purchased and awaiting payment against delivery is included for valuation purposes as a security held, and an account payable is set up to reflect the purchase price, including brokers' commissions and other expenses incurred in the purchase thereof but not disbursed as of the valuation date.

(4) An investment sold but not delivered pending receipt of proceeds is valued at the net sales price.

(5) Brokers' commissions, taxes and other expenses which may be incurred in connection with the future purchase or sale of portfolio securities as a result of admissions to or terminations of participation occurring as of the valuation date are not considered in valuing the assets of the Commingled Account as of such valuation date.

(6) Uninvested cash is valued at its face amount.

(7) The value of any dividends, including stock dividends, or rights which may have been declared on securities in the portfolio but not received by the Commingled Account as of the close of business on the valuation date are included as an asset of the Commingled Account if the security upon which such dividends or rights were declared is included and is valued ex-dividend or ex-rights.

(8) Interest accrued on any interest-bearing security in the portfolio is included as an asset of the Commingled Account if such accrued interest is not otherwise included in the valuation of the underlying security. Other accrued income is also included to the date of calculation.

(9) All reserves, liabilities, expenses, taxes and other charges due or accrued which in the discretion of the Committee are properly

chargeable to the Commingled Account up to the date of calculation are deducted. An estimate of the fee chargeable by the Bank for investment management and other services and accrued to date is included as an expense.

(10) Each admission to and termination of a participation is reflected no later than in the calculation of net asset value as of the first valuation date following the valuation date as of which such admission or termination takes place, but no such admission or termination taking place as of a valuation date is taken into consideration in the calculation of net asset value for such date.

The computation of the net asset value of the Commingled Account and of the units of participation which is made as of each valuation date is completed within the two Business Days next following such date.

#### Admission to the Commingled Account

Each admission to participation in the Commingled Account is made on the day the written request of the Bank for such admission is received by the Committee, if such day is both a valuation date and a Business Day, or, if such day is not both a valuation date and a Business Day, on the next succeeding day which is both, and is made on the basis of the net asset value of the units of participation as determined for the valuation date on which admission is made.

The minimum acceptable initial participation by any Participant is \$10,000. Except for par-

ticipations resulting from distributions of net long-term capital gains (see "Distributions and Federal Tax Status"), each subsequent additional participation by a Participant must be at least \$1,000. In no event, however, will a participation be accepted if immediately after making such investment the Participant would hold units of participation the aggregate net asset value of which would exceed either (a) \$500,000 or (b) 10% of the then net asset value of the Commingled Account.

The Bank may not itself become a Participant.

#### Termination of Participations

A participation may be terminated in whole or in part, on the basis of the net asset value of the units of participation being terminated and without any charge for termination, pursuant to an irrevocable written notice of termination, accompanied by the receipt or receipts issued to the Participant with respect to the units of participation being terminated, delivered to any office of the Bank in the State of New York on any day on which the Bank is open for business.

However, no Participant may terminate less than all of his units of participation in any case where the aggregate net asset value of the units remaining would be less than \$10,000. If delivery of a notice of termination, accompanied by the receipt or receipts issued with respect to the units of participation being terminated, is made before 1:00 P.M. (New York City time) on a Business Day, the net asset value is determined as of the close of business

on that day. If such delivery is made after 1:00 P.M. on a day which is a Business Day or is made at any time during a day when the Bank is open but the New York Stock Exchange is not open, the net asset value is determined as of the close of business on the next day on which the New York Stock Exchange is open. The value of units of participation on termination may be more or less than the Participant's cost, depending on the market value of the securities held by the Commingled Account at the time of termination.

If the Bank is notified of the death or adjudicated incompetency of any Participant (or, in the case of a joint account, the death or adjudicated incompetency of both persons creating such account or the survivor of them), such notification shall be treated as a notice of termination of the participation owned by such Participant. Such notice of termination need not be accompanied by the receipt or receipts issued to the Participant with respect to the units of participation being terminated, but the Bank shall use its best efforts to have such receipt or receipts surrendered as soon as reasonably practicable thereafter.

Distributions upon termination of participations normally will be made in cash within seven days of the day on which the notice of such termination is delivered to the Bank. However, if in its sole discretion the Committee deems it advisable or necessary, such distributions may be made in kind, or partly in cash and partly in kind.

#### Distributions and Federal Tax Status

Cash distributions from the net investment income, if any, of the Commingled Account will be made to the Participants, ratably on their units of participation, at least quarter-annually. In the event of realized capital losses, distributions of investment income may result in a return of capital. It is the policy of the Committee to distribute each year substantially all of the net income (including the excess, if any,

Any distribution upon termination as the result of the death or adjudicated incompetency of a Participant shall be held by the Bank at the Bank's expense in such Participant's individual investment advisory account until such time as such Participant's legal representative shall have been appointed and shall have furnished proof satisfactory to the Bank of his right to receive such distribution. The Bank shall to the extent practicable keep all cash in such accounts invested in United States Treasury bills but shall not otherwise invest or reinvest the assets of such accounts or be obligated to take any other action in respect thereof.

The right to terminate a participation or to receive a distribution with respect to any such termination within seven days as stated above may be suspended for any period during which trading on the New York Stock Exchange is restricted or such Exchange is closed (other than customary weekend and holiday closings), for any period during which an emergency exists as a result of which disposal of portfolio securities or determination of the net asset value of the Commingled Account is not reasonably practicable, and for such other periods as the Securities and Exchange Commission may by order permit. If at the time of any suspension of the right to receive distributions a Participant shall have given a notice of termination but shall not yet have received a distribution, such Participant shall have the right to withdraw the notice of termination.

of net short-term capital gain over net long-term capital loss) of the Commingled Account. For Federal income tax purposes, each such distribution will be taxable to each Participant as ordinary income.

Distribution of net long-term capital gains realized from the sale of securities in the Commingled Account will be made to Participants, ratably on their units of participation, on an



annual basis shortly before or after August 31, the end of the Commingled Account's fiscal year. Such distributions will be paid in units of participation taken at their net asset value unless the Participant elects to receive payment entirely in cash, and will be taxable to each Participant, whether taken in units of participation or in cash, as long-term capital gain irrespective of the length of time he has been a Participant. To the extent that the net asset value of units of participation is reduced below a Participant's cost by distribution of net long-term capital gain realized on the sale of securities, such distribution is in effect a return of capital, although taxable as stated above. Dis-

tributions of net long-term capital gain are not eligible for the \$100 dividend-received exclusion.

The Commingled Account expects to qualify as a "regulated investment company" within the meaning of the Internal Revenue Code. (Such regulation does not involve supervision of management or investment practices or policies.) As such, and by complying with the provisions of the Code applicable to regulated investment companies, the Commingled Account will be relieved of liability for Federal income tax on net income and net long-term capital gains which are distributed.

#### Management Services

The Commingled Account is managed by the Bank pursuant to a management agreement (subject to the approval of the Participants at their first annual meeting, scheduled for November 16, 1966). The agreement provides that the Bank will maintain a continuous investment program for the Commingled Account, not inconsistent with its stated investment policy, will determine what securities are to be purchased or sold for the Commingled Account and will execute transactions for the Commingled Account accordingly. The agreement further provides that the Bank agrees to furnish all custodian, administrative and clerical services, office space and facilities required for the operation of the Commingled Account and to reimburse the Commingled Account for the compensation and expenses, if any, paid by the Commingled Account to the members of the Committee. The Bank also agrees to pay all costs and expenses arising in connection with the organization of the Commingled Account, including its initial registration and qualification under the Federal securities laws and under other applicable regulatory requirements, but the cost of maintaining such registration and qualification (other than the cost of printing, publication and distribution of current reports to Participants, which will be paid by the Bank) will be an expense of the Commingled Account. The cost of independent professional services, such as legal,

auditing or accounting services (other than in connection with the organization of the Commingled Account), and the cost of preparation and distribution of notices to Participants and proxy statements will also be expenses of the Commingled Account.

For the Bank's services, the Commingled Account is charged as of the last day of each fiscal quarter with a fee payable to the Bank equal to  $\frac{1}{4}$  of 1% of the average of the net asset values of the Commingled Account taken on each valuation date during such quarter (or approximately  $\frac{1}{4}$  of 1% on an annual basis).

The management agreement is renewable annually after December 31, 1967, provided that such continuance is approved annually by the Committee, including a majority of the members of the Committee who are not affiliated with the Bank, or by the vote of Participants having more than 50% of the units of participation. The agreement may, on sixty days' notice, be terminated by the Committee, by the vote of a majority of the units of participation as set forth in the agreement or by the Bank, and will terminate automatically if assigned by the Bank. Amendments of the agreement must be approved by the Comptroller of the Currency and by the vote of Participants having more than 50% of the units of participation.

### Brokerage Commissions

In placing orders for the purchase and sale of portfolio securities for the Commingled Account pursuant to the management agreement, the Bank's primary objective is to obtain the most favorable prices and execution of orders available. While there is no undertaking or agreement to do so, it is the Bank's practice to place a major portion of such brokerage business with brokers and dealers who supply supplementary research and statistical information or market quotations to the

Bank as the Commingled Account's investment adviser. This practice is not followed if as a result the Commingled Account would not obtain the most favorable prices and execution. The Bank does not believe that its expenses in furnishing investment management will be significantly affected by the receipt of such research and statistical information and market quotations. There is no intention to place portfolio transactions with any particular brokers or dealers or group thereof.

### Members of the Committee

The members of the Committee are as follows:

**ROBERT L. HOGUET, JR., Chairman**

399 Park Avenue, New York, N. Y.

Executive Vice President of First National City Bank in charge of the Bank's Trust and Investment Division and Chairman of its Investment Policy Committee.

**CONRAD F. AHRENS**

399 Park Avenue, New York, N. Y.

Vice President of First National City Bank in charge of the Investment Research Department of the Bank's Trust and Investment Division and a member of its Investment Policy Committee.

**JOHN D. LOCKTON**

570 Lexington Avenue, New York, N. Y.

Treasurer of the General Electric Company, Chairman of the Trustees of the General Electric Pension Trust and other General Electric trusts, and a Trustee of the Elfun

Trusts, a mutual fund for General Electric employees.

**PAUL SAUREL**

300 Park Avenue, New York, N. Y.

A partner of the law firm of Morris & McVeigh.

**HULBERT W. TRIPP**

399 Park Avenue, New York, N. Y.

Senior Vice President of First National City Bank in the Bank's Trust and Investment Division and a member of its Investment Policy Committee since January 1965. Member of the Bank's Trust Board since 1963. Financial Vice President of the University of Rochester prior to January 1965, and since that date, Chairman of its Investment Committee.

All positions shown have been held for more than five years unless otherwise indicated, except that Messrs. Hogue and Ahrens have been associated with the Bank in responsible positions for more than five years, although not at all times in the positions shown.

No compensation is paid out of the Commingled Account to any of the members of the Committee who are affiliated with the Bank. The Committee determines the compensation paid to the members of the Committee who are not affiliated with the Bank, and the Commingled Account is

reimbursed by the Bank. It is expected that the members of the Committee who are not affiliated with the Bank will in the aggregate receive fees of \$5,000 during the Commingled Account's first fiscal year ending August 31, 1966, and fees of \$10,000 for the succeeding full fiscal year.



### Meetings of Participants

A meeting of Participants for electing members of the Committee and approving the appointment of auditors for the year and for transacting other business is held annually at 11:00 A.M. on the third Wednesday in November, if not a legal holiday, or, if a legal holiday, then on the next succeeding day not a legal holiday. Special meetings of Participants may be called at any time by any member of the Committee.

All Participants' meetings are held at 399 Park Avenue, New York City, unless a different place of meeting within the City of New York is specified in the notice of the meeting. Notice of the time, place and purpose or purposes of each meeting is mailed, at least 20 days, but not more than 50 days, prior to the meeting, to each Participant, at his address as it appears on the books of the Bank at the time of such mailing, except that persons becoming Participants after the mailing of such notice receive notice of the meeting at the time they become Participants. Notice of any adjourned meeting need not be given.

Each Participant is at every meeting of Participants entitled to such number of votes, in person or by proxy, as is equal to the number of

units of participation (including fractions of units) held by such Participant.

All matters are decided by a vote of the majority of the votes validly cast except as otherwise specified in this Prospectus or in any agreement which by its terms requires a higher vote for the approval, continuance or termination of such agreement and except as otherwise required by provisions of the Investment Company Act of 1940. The right to vote by proxy exists only if the instrument authorizing such proxy to act has been executed in writing by the Participant or by his duly authorized attorney.

The presence at any Participants' meeting, in person or by proxy, of Participants holding units of participation aggregating a majority of the total number of units constitutes a quorum for the transaction of business. In the absence of a quorum, a majority in interest of the Participants present in person or by proxy, or if no Participant is present in person or by proxy, any member of the Committee present, may adjourn the meeting *sine die* or from time to time. Any business that might have been transacted at the meeting originally called may be transacted at any adjourned meeting at which a quorum is present.

### Election of Members of the Committee

The Committee consists of five members. The number of members may be increased or decreased by resolution of the Committee or action of the Participants, provided that the number shall not be less than five. Each member (whenever elected) holds office until his successor has been elected and qualified unless he resigns or his office becomes vacant by his death or removal.

At least 40% of the members of the Committee at all times will be persons who are not affiliated with the Bank (except as otherwise temporarily permitted by the provisions of the Investment Company Act of 1940 in the case of death, disqualification or bona fide resignation). The

members of the Committee are elected annually, by a plurality of the votes cast at such election, at the annual meeting of Participants, or, in the event of any failure to elect the members at the annual meeting, at a special meeting of Participants, provided that the notice of such special meeting shall mention such purpose.

If any vacancy occurs in the Committee by reason of death, resignation, removal or otherwise, or if the authorized number of members of the Committee is increased, the members then in office continue to act, and such vacancies or newly created memberships (if not previously filled by the Participants at an annual or special meeting) may be filled by a majority vote of the

members then in office, although less than a quorum, provided that immediately after filling such vacancy at least two-thirds of the members then holding office have been elected to such office by the Participants. In the event that at any time (other than the time preceding the first annual meeting of Participants) less than a major-

ity of the members holding office at that time were so elected by the Participants, a meeting of the Participants shall be held promptly, and in any event within 60 days, for the purpose of electing members to fill any existing vacancies in the Committee unless the Securities and Exchange Commission shall by order extend such period.

#### Accounting Records, Audits and Financial Reports

The accounting records of the Commingled Account are kept on the basis of a fiscal year ending on the last day of August of each year.

At least semi-annually, the accounting records of the Commingled Account are audited by Haskins & Sells, or other independent public accountants selected in accordance with the provisions of the Investment Company Act of 1940. The compensation and expenses of the auditors

are charged against and payable out of the assets of the Commingled Account.

The Commingled Account, at least semi-annually, transmits to Participants reports, based on the audit, containing such financial statements and other information as is required by applicable laws and regulations. The cost of printing, publication and distribution of such reports to Participants is borne by the Bank.

#### Termination of the Commingled Account

The Commingled Account will continue without limitation of time, provided that the Committee may, if authorized by the vote of Participants having more than 50% of the units of participation, at any time terminate the Commingled Account. (See, however, "Litigation" below.) Thereafter, no further moneys shall be admitted to a participation and no ter-

minations shall be permitted, and the Committee shall, after all expenses and liabilities of the Commingled Account are paid or satisfied, distribute at one time or from time to time the assets of the Commingled Account to the Participants, either in cash or in kind, or partly in cash and partly in kind.

#### Status of the Commingled Account

The Commingled Account was established in the State of New York on September 21, 1965 and is operated as a collective investment fund pursuant to applicable regulations of the Comptroller of the Currency. The Commingled Ac-

count is also deemed to be an investment company of the diversified, open-end management type, and the Bank may be deemed to be its statutory underwriter.

#### Litigation

Two legal proceedings are pending which might affect the status of the Commingled Account. The first, against the Comptroller of the Currency, was brought on April 25, 1966. The Investment Company Institute (an association of investment companies, investment advisers to investment companies and underwriters of in-

vestment company securities) and five of its members filed a complaint in the United States District Court for the District of Columbia against the Comptroller, asking the court to set aside the Comptroller's regulation and the specific approval thereunder pursuant to which the Commingled Account is operated, on the

ground that the Comptroller has unlawfully authorized activities which violate certain provisions of the Banking Act of 1933 aimed at divorcing commercial and investment banking and which are not permitted to banks organized under New York State law. Neither the Bank nor the Commingled Account was named as a party in the complaint.

The second suit was commenced on May 5, 1966 by the National Association of Securities Dealers, Inc. (an association of brokers and dealers in over-the-counter securities, including the shares of open-end investment companies). The NASD filed a petition in the United States Court of Appeals for the District of Columbia Circuit asking the court to review and set aside certain orders of the Securities and Exchange Commission granting the Commingled Account exemptions from the provisions of Sections 10(b)(2), 10(b)(3) and 10(c) of the Investment Company Act of 1940 so as to permit

a majority of the members of the Committee to be persons who are affiliated with the Bank. The petition for review alleges that the Commission exceeded its authority by granting exemptions which nullify fundamental statutory policy and that the Commission failed to give proper consideration to an argument raised by the NASD in the course of the administrative proceedings to the effect that the Committee will not exercise the directorial functions contemplated by the Investment Company Act of 1940. The Bank has moved to intervene in this proceeding.

A decision adverse to the Comptroller of the Currency in the first case or the Securities and Exchange Commission in the second might necessitate the termination of the Commingled Account and the distribution of its net assets or the resignation of the members of the Committee who are affiliated with the Bank and the termination by the Bank of the management agreement.

June 14, 1966

ROBERT L. HOGUET, JR., *Chairman*

CONRAD F. AHRENS

JOHN D. LOCKTON

PAUL SAUREL

HULBERT W. TRIPP

*Members of the Committee*

**Commingled Investment Account of First National City Bank**

**Statement of Assets and Liabilities — June 2, 1966**

<b>Assets</b>	
Cash, held by First National City Bank .....	\$220,000
Committee fees receivable from First National City Bank .....	2,500
	<u>\$222,500</u>

<b>Liabilities</b>	
Fees due unaffiliated Committee members .....	<u>2,500</u>
Contingencies (see note)	
Net assets applicable to units of participation outstanding .....	<u>\$220,000</u>
Net asset value per unit of participation ( $\$220,000 \div 22,000$ units outstanding; 500,000 units registered) .....	<u>\$ 10.00</u>

Note—Information pertaining to pending legal proceedings is given in the Prospectus under the heading "Litigation".

**Opinion of Independent Certified Public Accountants**

To the Committee and Participants of the  
Commingled Investment Account of  
First National City Bank:

We have examined the Statement of Assets and Liabilities of the Commingled Investment Account of First National City Bank as of June 2, 1966. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying Statement of Assets and Liabilities presents fairly the financial position of the Commingled Investment Account of First National City Bank at June 2, 1966, in conformity with generally accepted accounting principles.

**HASKINS & SELLS**

New York  
June 6, 1966

## AUTHORIZATION FOR COMMINGLING OF AGENCY ACCOUNTS

To: FIRST NATIONAL CITY BANK  
P. O. Box 3130, Grand Central Station  
New York, N. Y. 10017

In order to obtain your investment management services, I hereby constitute you my attorney and managing agent with discretion as to the investment of any funds at any time held in my investment advisory account with you. You may invest such funds, together with the funds of other customers who have given you the same authority, through a single collective account (the "Commingled Account") consisting of cash and securities in your custody and described in the current Prospectus for the Commingled Account, a copy of which I have received and by the provisions of which I agree to be bound. Except as otherwise required by the Investment Company Act of 1940 or any rule or regulation of the Securities and Exchange Commission thereunder or by any regulation or ruling of the Comptroller of the Currency of the United States, you may as my attorney and agent make any changes in the management or operation of the Commingled Account.

Your authority to act under this letter shall continue until revoked in writing by me or until my death or adjudicated incompetency. It is understood that you shall not, however, be liable for continuing to act after my death or incompetency if you shall not have received notice thereof. If your authority to act under this letter shall be terminated while my account is invested through the Commingled Account, my participation in the Commingled Account shall be terminated and liquidated in the manner described in the Prospectus of the Commingled Account current at the time of such termination.

\_\_\_\_\_  
(Date)

\_\_\_\_\_  
(Signature)

Please Print:

NAME \_\_\_\_\_  
(First) (Middle) (Last)

--	--	--

Social Security Number or  
Taxpayer Identification Number

ADDRESS \_\_\_\_\_  
(Street) (City) (State) (Zip Code)

If an address outside the United States is given, please indicate whether you are a United States citizen:  
Yes ☐ No ☐

If you wish to have net long-term capital gains for your account paid over to you rather than reinvested in additional units as described in the Prospectus, please initial here \_\_\_\_\_  
(Initials)

*(This authorization is subject to acceptance by First National City Bank  
at its Headquarters at 399 Park Avenue, New York, New York.)*



**CUSTOMER'S COPY**

**AUTHORIZATION FOR COMMINGLING OF AGENCY ACCOUNTS**

To: **FIRST NATIONAL CITY BANK**  
P. O. Box 3130, Grand Central Station  
New York, N. Y. 10017

In order to obtain your investment management services, I hereby constitute you my attorney and managing agent with discretion as to the investment of any funds at any time held in my investment advisory account with you. You may invest such funds, together with the funds of other customers who have given you the same authority, through a single collective account (the "Commingled Account") consisting of cash and securities in your custody and described in the current Prospectus for the Commingled Account, a copy of which I have received and by the provisions of which I agree to be bound. Except as otherwise required by the Investment Company Act of 1940 or any rule or regulation of the Securities and Exchange Commission thereunder or by any regulation or ruling of the Comptroller of the Currency of the United States, you may as my attorney and agent make any changes in the management or operation of the Commingled Account.

Your authority to act under this letter shall continue until revoked in writing by me or until my death or adjudicated incompetency. It is understood that you shall not, however, be liable for continuing to act after my death or incompetency if you shall not have received notice thereof. If your authority to act under this letter shall be terminated while my account is invested through the Commingled Account, my participation in the Commingled Account shall be terminated and liquidated in the manner described in the Prospectus of the Commingled Account current at the time of such termination.

\_\_\_\_\_  
(Date)

\_\_\_\_\_  
(Signature)

Please Print:

NAME \_\_\_\_\_  
(First) (Middle) (Last)

\_\_\_\_\_  
Social Security Number or  
Taxpayer Identification Number

ADDRESS \_\_\_\_\_  
(Street) (City) (State) (Zip Code)

If an address outside the United States is given, please indicate whether you are a United States citizen:

Yes ☐

No ☐

If you wish to have net long-term capital gains for your account paid over to you rather than reinvested in additional units as described in the Prospectus, please initial here \_\_\_\_\_  
(initials)

*(This authorization is subject to acceptance by First National City Bank  
at its Headquarters at 399 Park Avenue, New York, New York.)*



Exhibit 13 to  
Affidavit of  
James F. Fitzpatrick

COMMINGLED INVESTMENT ACCOUNT Civ. Act. No. 1031

of  
FIRST NATIONAL CITY BANK

RECEIVED

OCT 17 1966

NOTICE OF ANNUAL MEETING OF PARTICIPANTS

U. S. SECURITIES & EXCHANGE COMMISSION

The Annual Meeting of the participants of the Commingled Investment Account of First National City Bank will be held at the offices of First National City Bank at 399 Park Avenue, New York, New York, on Wednesday, November 16, 1966, at 11 A.M., New York time, for the following purposes:

- (a) To elect members of the Committee for the Commingled Account to hold office until the next Annual Meeting and until their respective successors shall have been elected and qualified.
- (b) To consider and, if deemed advisable, ratify the action taken by the Committee in selecting Haskins & Sells as accountants for the fiscal year ended August 31, 1966 and the fiscal year ending August 31, 1967.
- (c) To consider and, if deemed advisable, approve the Management Agreement of the Commingled Account with First National City Bank, dated May 25, 1963.
- (d) To transact such other business as may properly come before the meeting or any adjournment or adjournments thereof.

Holders of record of units of participation in the Commingled Account as of the close of business on November 15, 1966 are entitled to vote at the meeting or any adjournment thereof.

By order of the Committee,

ROBERT L. HOGUET, JR.  
Chairman

October 14, 1966

PLEASE FILL IN, SIGN, DATE AND RETURN THE  
ENCLOSED FORM OF PROXY PROMPTLY.

You may nevertheless vote in person if you do attend the meeting.

## PROXY STATEMENT

### GENERAL

This statement is furnished in connection with the solicitation of proxies by the Committee for the Commingled Investment Account of First National City Bank (the "Commingled Account") for use at the Annual Meeting of its participants, to be held at the offices of First National City Bank, 399 Park Avenue, New York, New York, on Wednesday, November 16, 1966, at 11:00 A.M., New York time.

Any person giving a proxy has power to revoke it at any time prior to its exercise. All properly executed and unrevoked proxies received in time for the meeting will be voted.

The record of participants entitled to vote at the meeting, or any adjournment thereof, will be determined as of the close of business on November 15, 1966. Each participant is entitled to such number of votes, in person or by proxy, as is equal to the number of units of participation (including fractions of units) held by such participant. On October 10, 1966, there were 304,798.518 units of participation outstanding.

### ELECTION OF MEMBERS OF THE COMMITTEE

It is the intention of the persons named in the accompanying form of proxy to vote at the Annual Meeting for the election of the nominees named below as members of the Committee for the Commingled Account to serve until the next annual meeting of participants and until their successors are elected and qualified. (A participant may specify that his proxy not be voted in connection with the election of the Committee members by checking the box provided for this purpose on the form of proxy.) If any such nominee shall be unable to serve, an event not now anticipated, the proxies will be voted for such person, if any, as shall be designated by the Committee to replace any such nominee.

#### Information Concerning Nominees

The following table sets forth the principal occupation of each of the nominees for members of the Committee:

<u>Nominee</u>	<u>Principal Occupation</u>
CONRAD F. AHRENS	Vice President of First National City Bank in charge of the Investment Research Department of the Bank's Trust and Investment Division and a member of its Investment Policy Committee
ROBERT L. HOGUET, JR.	Executive Vice President of First National City Bank in charge of the Bank's Trust and Investment Division and Chairman of its Investment Policy Committee

<u>Nominee</u>	<u>Principal Occupation</u>
JOHN D. LOCKTON	Treasurer of the General Electric Company, Chairman of the Trustees of the General Electric Pension Trust and other General Electric trusts, and a Trustee of the Elfun Trusts, a mutual fund for General Electric employees
PAUL SAUREL	Partner of the law firm of Morris & McVeigh
HULBERT W. TRIPP	Senior Vice President of First National City Bank in the Bank's Trust and Investment Division and a member of its Investment Policy Committee since January 1963. Member of the Bank's Trust Board since 1963. Financial Vice President of the University of Rochester prior to January 1963, and since that date, Chairman of its Investment Committee.

NOTE: All positions shown have been held for more than five years unless otherwise indicated, except that Messrs. Ahrens and Hoguet have been associated with First National City Bank in responsible positions for more than five years, although not at all times in the positions shown.

Each of the nominees named above is now a member of the Committee for the Commingled Account, having been appointed to such position in September 1963 by First National City Bank upon the organization of the Commingled Account, except that Mr. Lockton was elected to the Committee by its members on April 20, 1966. Mr. Hoguet has acted as Chairman of the Committee since April 20, 1966. None of the members of the Committee beneficially owns any units of participation in the Commingled Account.

#### Remuneration of Members of the Committee

During the fiscal year ended August 31, 1966, the members of the Committee who were not affiliated with First National City Bank received in the aggregate fees of \$5,000, for which the Commingled Account was reimbursed by the Bank pursuant to the provisions of the Management Agreement with the Commingled Account. (Further information about the Management Agreement is set forth below under "Approval of Management Agreement".) It is expected that during the fiscal year ending August 31, 1967, the unaffiliated Committee members will receive in the aggregate fees of \$10,000. No compensation has been or will be paid out of the Commingled Account to any of the members of the Committee affiliated with the Bank.

#### Brokerage Commissions on Portfolio Transactions

In placing orders for the purchase and sale of portfolio securities for the Commingled Account, pursuant to the Management Agreement, the primary objective of First National City Bank is to obtain the most favorable prices and execution of orders available. While

there is no undertaking or agreement to do so, it is the Bank's practice to place a major portion of such brokerage business with brokers and dealers who supply supplemental research and statistical information or market quotations to the Bank as the Commingled Account's investment adviser. This practice is not followed if, as a result, the Commingled Account would not obtain the most favorable prices and execution. There is no intention to place portfolio transactions with any particular brokers or dealers or group thereof.

For the fiscal year ended August 31, 1966, the Commingled Account paid total brokerage commissions of \$11,769 on portfolio transactions. All such brokerage was allocated to brokers and dealers primarily on the basis of providing research information to First National City Bank and to a small extent for market quotations. It is not possible to place a dollar value on such information. Moreover, the Bank does not believe that its expenses in furnishing investment management are significantly affected by the receipt of such research and statistical information and market quotations, which merely supplement the Bank's own research activities.

#### APPOINTMENT OF ACCOUNTANTS

The Committee has unanimously appointed Haskins & Sells, a firm of independent certified public accountants, to act as accountants for the Commingled Account's first fiscal year ended August 31, 1966 and for the fiscal year ending August 31, 1967, subject to the ratification of the participants at the forthcoming Annual Meeting. The enclosed form of proxy provides space for instructions, directing the proxies named therein to vote for or against ratification of that appointment.

#### APPROVAL OF MANAGEMENT AGREEMENT

The Commingled Account is managed by First National City Bank, 399 Park Avenue, New York, New York, pursuant to a Management Agreement dated May 25, 1963. The Management Agreement provides that the Bank will maintain a continuous investment program for the Commingled Account, not inconsistent with its stated investment policy, will determine what securities are to be purchased or sold for the Commingled Account and will execute transactions for the Commingled Account accordingly. It is further provided that the Bank will furnish all custodian, administrative and clerical services, office space and facilities required for the operation of the Commingled Account, will reimburse the Commingled Account for the compensation and expenses, if any, paid by the Commingled Account to any member of the Committee who is not affiliated with the Bank and will pay all costs and expenses arising in connection with the organization of the Commingled Account, as well as the cost of current reports to participants.

For all of its services under the Agreement, First National City Bank receives as of the last day of each fiscal quarter a fee of  $\frac{1}{8}$  of 1% (approximately  $\frac{1}{2}$  of 1% on an annual basis) of the average of the values of the Commingled Account's net assets taken on each valuation date during such quarter. For the period June 2, 1966 to August 31, 1966, this fee amounted to \$1,674.42.

The Management Agreement was unanimously approved by the Committee for the Commingled Account, including the members thereof not affiliated with First National City Bank, at a meeting of the Committee held on April 20, 1966. At the time of such meeting, and at September 15, 1966, the only securities of First National City Bank beneficially owned by any of the Committee members consisted of shares of the Capital Stock of the Bank so owned by Messrs. Alrens and Hoguet which represented in the aggregate less than  $\frac{2}{1,000}$ th of 1% of the shares outstanding.

The Committee has deemed it advisable to submit the Management Agreement to the participants at this time as the Agreement provides that it shall automatically terminate if it is not approved by participants having more than 50% of the units of participation at the first Annual Meeting of the participants.

If approved by the participants at the forthcoming Annual Meeting, the Management Agreement remains in effect until December 31, 1967, and will continue from year to year thereafter, provided that such continuance is approved at least annually either by the Committee (including a majority of the members of the Committee who are not affiliated with the Bank) or by the vote of participants having more than 50% of the units of participation. The Agreement may, on 60 days' notice, be terminated by the Committee, by the vote of a majority of the units of participation as set forth in the Agreement, or by the Bank and terminates automatically if assigned by the Bank. Amendments of the Management Agreement must be approved by the Comptroller of the Currency and by the vote of participants having more than 50% of the units of participation.

First National City Bank, as well as acting as investment adviser and manager for the Commingled Account, may also be deemed its statutory underwriter. The name, address and principal occupation of each director of First National City Bank (including its three principal executive officers) are as follows:

<u>Name and Address</u>	<u>Principal Occupation</u>
WILLIAM M. BATTEN 235 Trumbull Road Manhasset, New York	Chairman, J. C. Penney Company, Inc.
JOHN E. BIERWIRTH Briarwood Crossing Cedarhurst, New York	Chairman of the Board, National Distillers and Chemical Corporation

<u>Name and Address</u>	<u>Principal Occupation</u>
CHARLES M. BRONKHORST 784 Park Avenue New York, New York	Chairman of the Board, The Anaconda Company
PERCY CHUBB, 2ND Chester, New Jersey	Chairman, Chubb & Son Inc.
FREDRICK M. EATON 791 Park Avenue New York, New York	Member, Shearman & Sterling
R. CWIN FOLLIS 3693 Washington Street San Francisco, California	Chairman of the Board, Standard Oil Company of California
J. PETER GRACE 41 Shelter Rock Road Manhasset, New York	President, W. R. Grace & Co.
JOSEPH A. GRAZIER 435 East 52nd Street New York, New York	Chairman, American Radiator & Standard Sanitary Corporation
MICHAEL L. HAIDER 3 East 84th Street New York, New York	Chairman, Standard Oil Company (New Jersey)
H. MANSFIELD HORNOR 105 Bloomfield Avenue Hartford, Connecticut	Chairman, United Aircraft Corporation
ALFRED HOUGHTON The Knoll Corning, New York	Honorary Chairman of the Board, Corning Glass Works
GEORGE P. JENKINS 485 Ridgewood Avenue Glen Ridge, New Jersey	Chairman of the Finance Committee, Metropolitan Life Insurance Company
JOHN R. KIMBERLY Kimberly Point Neenah, Wisconsin	President, Kimberly-Clark Corporation
ROGER MILLIKEN 627 Otis Boulevard Spartanburg, South Carolina	President, Deering Milliken, Inc.
GEORGE S. MOORE 579 Frogtown Road New Canaan, Connecticut	President, First National City Bank
CHARLES G. MORTIMER 17 Platt Place White Plains, New York	Chairman of the Executive Committee, General Foods Corporation
ROBERT S. OELMAN 235 Park Road Dayton, Ohio	Chairman, The National Cash Register Company



<u>Name and Address</u>	<u>Principal Occupation</u>
RICHARD S. PERKINS 141 East 72nd Street New York, New York	Chairman of the Executive Committee, First National City Bank
CLIFTON W. PHALEN 110 East 37th Street New York, New York	Chairman, New York Telephone Company
JAMES S. ROCKEFELLER Indian Spring Road Greenwich, Connecticut	Chairman, First National City Bank
CHAS. H. SOMMER 942 Tirrell Farms Road St. Louis, Missouri	President, Monsanto Company
WILLIAM C. STOLK 14 Sutton Place South New York, New York	Director, American Can Company
LEO D. WELCH Brookville Road Brookville, New York	Former Chairman of Standard Oil Company (New Jersey) and of Communications Satellite Corporation
ALBERT L. WILLIAMS 16 Essex Place Bronxville, New York	Chairman of the Executive Committee, International Business Machines Corporation
JOSEPH C. WILSON 1550 Clover Street Rochester, New York	Chairman and Chief Executive Officer, Xerox Corporation

First National City Bank furnishes investment advice with respect to the assets of two other registered investment companies, The Equity Annuity Life Insurance Company and the National Variable Annuity Company of Florida Separate Account. On August 15, 1966, the market values of the portfolio securities of these companies were, respectively, \$7,918,462 and \$40,216. First National City Bank's services for both companies are limited to making investment recommendations to management for their approval and the safekeeping of portfolio securities. The Bank's fee for these services is based on the market value of the portfolio of each company, and at present values is computed at the rate of  $\frac{1}{8}$  of 1% per annum of such value in the case of The Equity Annuity Life Insurance Company and  $\frac{1}{2}$  of 1% per annum of such value in the case of the National Variable Annuity Company of Florida Separate Account.

In addition, First National City Bank manages the investments of Netherlands Antilles Mutual Fund N.V., an investment company organized under the laws of the Netherlands Antilles. As of September 7, 1963, such Fund had net assets of \$27,918,983. The Bank receives compensation quarterly at the rate of  $\frac{1}{8}$  of 1% ( $\frac{1}{2}$  of 1% on an annual basis) of the average net asset value of such Fund.

#### OTHER MATTERS

The Committee knows of no business to be brought before the meeting other than as set forth above. If, however, any other matters properly come before the meeting, it is the intention of the persons named in the enclosed form of proxy to vote such proxies on such matters in accordance with their best judgment. The cost of preparation and distribution of this notice of meeting and proxy statement and the proxies will be borne by the Commingled Account. Any additional expense in connection with the solicitation of proxies will be borne by First National City Bank.

The Annual Report of the Commingled Account for the fiscal year ended August 31, 1966, including financial statements, is enclosed herewith.

Participants who cannot attend the meeting in person are urged to sign the enclosed form of proxy and return it at once in the envelope enclosed for that purpose.

By Order of the Committee,

ROBERT L. HOGUET, JR.  
Chairman

October 14, 1966

**PROXY**

**COMMINGLED INVESTMENT ACCOUNT OF FIRST NATIONAL CITY BANK**  
**Annual Meeting of Participants, November 16, 1966**

The undersigned hereby appoints ROBERT L. HOCUTT, JR., JOHN D. LOCKTON and HULBERT W. TAPP, and each of them, the proxies of the undersigned, with power of substitution to each of them, to vote all units of participation in the COMMINGLED INVESTMENT ACCOUNT OF FIRST NATIONAL CITY BANK which the undersigned is entitled to vote, at the Annual Meeting of the Participants of the Commingled Account, to be held at the offices of First National City Bank, 399 Park Avenue, New York, New York, on November 16, 1966, at 11 A.M., New York time, and at any adjournment or adjournments thereof:

- (1) FOR ☐ the election of members of the Committee for the Commingled Account; [If the foregoing box is left blank and this box ☐ is checked, this proxy will not be voted in connection with such election.]
- (2) FOR ☐ AGAINST ☐ ratification of the selection of Haskins & Sells as accountants for the year ended August 31, 1966 and the fiscal year ending August 31, 1967;
- (3) FOR ☐ AGAINST ☐ approval of the Management Agreement of the Commingled Account with First National City Bank, dated May 25, 1966; and
- (4) on any other business which may properly come before the meeting or any adjournment or adjournments thereof.

**PLEASE SIGN AND DATE ON THE REVERSE SIDE AND MAIL PROMPTLY IN ENCLOSED ENVELOPE.**

THIS PROXY IS SOLICITED BY THE MANAGEMENT and will be voted FOR the proposals in paragraphs (2) and (3) unless the participant specifies otherwise, in which case it will be voted as specified.

It will also be voted FOR the election of members of the Committee unless the participant specifies that it not be voted in connection with such election.

Dated:

1966

**RECEIVED**

**OCT 17 1966**

**E. L. SECURITIES & FINANCE CORPORATION**

Signature(s) of Participant(s)

(Please sign exactly as your name or names appear above. When signing as executor, administrator, trustee or custodian for a minor, please give your full title as such. Joint holders should both sign.)



# FIRST NATIONAL CITY BANK

300 PARK AVENUE, NEW YORK, N. Y. 10022

Exhibit 14 to  
Affidavit of

COMMINGLED INVESTMENT ACCOUNT James F. Fitzpatrick,  
Civ. Act. 1083-66

As a valued customer of the Bank you might wish to know of a recent addition to the services of our Trust and Investment Division. The newly established Commingled Investment Account extends our Investment Advisory service to individuals who wish to invest \$10,000 or more. The Commingled Account is also available to joint tenants, custodians for minors, trustees and corporations.

As stated in the enclosed Prospectus, participations are acquired and withdrawn at net asset value without any charge for admission or withdrawal. The Bank receives an annual management fee of approximately  $\frac{1}{2}$  of 1% of the net assets of the Commingled Account.

The policy of the Commingled Account is to invest principally in common stocks and convertible securities which, in the Bank's judgment, offer an opportunity for long-term growth of principal and of income. Purchases and sales of securities will be made on the basis of long-term investment considerations and not for short-term profit.

In view of its investment aims, the Commingled Account is designed for investors who have sufficient cash reserves, life insurance or other resources to meet emergencies, and who do not require high current income or stability of principal and of income.

You should give careful consideration to these factors in deciding whether the Commingled Account provides a suitable investment medium for you. If you have any questions we shall be pleased to have you call the officer who handles your account, or the Investment Advisory Department (559-0491).

An individual may become a participant by completing the tear-out authorization form on page 13 of the Prospectus and forwarding it with his check to First National City Bank, P. O. Box 3130, Grand Central Station, New York, New York 10017. Special forms are available from the Bank for joint accounts, custodians for minors, trustees and corporations.

Exhibit 15  
Affidavit of  
James F. Fitzpatrick  
Civ. Act. 1083-66

BOARD OF GOVERNORS  
of the  
FEDERAL RESERVE SYSTEM  
Washington 25, D.C.

November 21, 1962

Mr. Charles H. Schimpff, Chairman,  
Investment Company Institute,  
900 Wilshire Boulevard,  
Los Angeles 17, California

Dear Mr. Schimpff:

This is in response to your letter of September 10, 1962, asking that the Board review certain of its interpretations of section 32 of the Banking Act of 1933, which express the view that an individual is prohibited by that section of the law from serving at the same time as an officer, director or employee of a member bank and of an open-end investment company. Your letter refers specifically to the interpretations of the Board published in 1941 Federal Reserve Bulletin 399, and 1951 Federal Reserve Bulletin 645.

The position taken by the Board in these interpretations has been reviewed by the Board on a number of occasions in the past at the request of interested persons. One such review was made in 1954-55 at the request of your predecessor organization. However, in the light of your letter the matter has again been considered by the Board.

Section 32, as you know, prohibits interlocking relationships between any member bank and any organization "primarily engaged in the issue, flotation, underwriting, public sale, or distribution, at wholesale or retail, or through syndicate participation, of stocks, bonds, or other similar securities". A mutual fund is, of course, engaged more or less continuously in the redemption of the stock issued by it and, consequently, it could not well carry on its activities if it did not issue its own stock on a virtually continuous basis. The fact that such a company issues only its own shares and is not engaged in other activities of the kind described by the statute is not, of course, a relevant consideration; nor is it relevant that the stock is sold to the public through independent organizations with the result that the company derives no direct profit from such sales.

Your letter compares public utilities with mutual funds in that the former may frequently be obliged to issue their own securities

Mr. Charles H. Schimpff

in order to expand their operations. The Board believes, however, that public utility companies cannot fairly be compared in this respect with mutual funds since, in the normal case, a public utility is primarily engaged in producing and selling the utility involved and the issuance of its own stock does not constitute one of its primary functions.

For the reasons indicated, the Board continues to be of the opinion that the ordinary open-end investment company must be regarded as an organization of the kind described in section 32 of the Banking Act of 1933.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary



Commingled Investment Account  
of  
First National City Bank

PURPOSE

To make First National City Bank's investment advisory services available to investors with \$10,000 or more.

INVESTMENT POLICY

To invest principally in common stocks and convertible securities offering opportunity for long-term growth of capital and of income.

INVESTMENT PHILOSOPHY

To emphasize the careful selection of securities based on intensive research and analysis of the many factors which determine investment values, with primary emphasis on the following:

- the quality and character of management
- effective research and development capability
- low labor costs
- leadership within an industry
- strong underlying growth trend
- sales and service oriented companies

To reappraise constantly the securities held in the portfolio to be sure they continue to meet the selection criteria.

## Committee for the Commingled Investment Account

**CONRAD F. AHRENS**

Vice President of First National City Bank in charge of the Investment Research Department of the Bank's Trust and Investment Division and a member of its Investment Policy Committee

**ROBERT L. HOGUET, JR.**  
(Chairman)

Executive Vice President of First National City Bank in charge of the Bank's Trust and Investment Division and Chairman of its Investment Policy Committee

**JOHN D. LOCKTON**

Treasurer of the General Electric Company, Chairman of the Trustees of the General Electric Pension Trust and other General Electric trusts, and a Trustee of the Elfun Trusts, a mutual fund for General Electric employees

**PAUL SAUREL**

Partner of the law firm of Morris & McVeigh

**HULBERT W. TRIPP**

Senior Vice President of First National City Bank in the Bank's Trust and Investment Division and a member of its Trust Board and Investment Policy Committee; and Chairman of the Investment Committee, University of Rochester

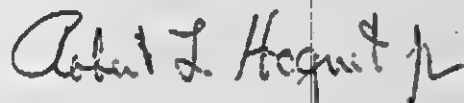
**To The Participants:**

We are pleased to welcome you as participants in the Commingled Investment Account of First National City Bank.

This First Report covers the period from inception on June 2, 1966 to the fiscal year end August 31, 1966.

The stated policy of the Commingled Account is to invest in securities offering the opportunity for long-term growth of both capital and income. At fiscal year end 91.3% of net assets was invested in the securities of 26 different companies selected for this purpose and 8.5% was invested temporarily in U.S. Treasury bills as a reserve for future purchases. Eleven major industries were represented in the portfolio of securities, with investments in the Airline, Drug and Cosmetic, Office Equipment and Petroleum fields making up 50% of the total.

A policy of investing for long-term growth of necessity entails some degree of short-term risk. During the brief period covered by this report both stock and bond prices were under strong downward pressure. Demand for borrowed money was exceptionally strong both by business and government and, in addition, the Federal Reserve adopted a monetary policy which became increasingly restrictive as the year progressed. This pressure was evident in the Commingled Account's investment performance in the first few months, with net assets equal to \$8.69 per unit of participation on August 31st. We remain confident that the carefully selected portfolio of securities has potential for growth on a longer term basis.



ROBERT L. HOGUET, JR.  
Chairman, Committee for the  
Commingled Investment Account

October 14, 1966

# Commingled Investment Account of First National City Bank

*Investments, August 31, 1966*

Shares	COMMON STOCKS	Quoted Market Value	% of Net Assets
	<b>AIRLINES</b>		
1,400	Trans World Airlines, Inc.	\$ 90,825.00	3.8
	<b>CHEMICALS</b>		
900	Eastman Kodak Co.	\$ 107,212.50	4.5
2,000	Monsanto Co.	115,250.00	4.9
		<u>\$ 222,462.50</u>	<u>9.4</u>
	<b>DRUGS &amp; COSMETICS</b>		
1,200	Avon Products, Inc.	\$ 96,000.00	4.1
700	Bristol-Myers Co.	65,800.00	2.8
1,100	Merck & Co., Inc.	75,900.00	3.2
		<u>\$ 237,700.00</u>	<u>10.1</u>
	<b>ELECTRICAL &amp; ELECTRONICS</b>		
1,400	International Telephone & Telegraph Corp.	\$ 92,400.00	3.9
1,600	Zenith Radio Corporation	106,000.00	4.5
		<u>\$ 198,400.00</u>	<u>8.4</u>
	<b>FOOD &amp; ALLIED CONSUMER PRODUCTS</b>		
400	Coca-Cola Co.	\$ 30,000.00	1.3
	<b>FOREST PRODUCTS—PAPER</b>		
4,000	Boise Cascade Corporation	\$ 89,000.00	3.7
	<b>OFFICE EQUIPMENT</b>		
700	International Business Machines Corp.	\$ 224,350.00	9.6
1,100	Xerox Corporation	195,250.00	8.1
		<u>\$ 419,600.00</u>	<u>17.7</u>
	<b>PETROLEUM</b>		
2,000	Louisiana Land & Exploration Co.	\$ 87,750.00	3.7
800	Pennzoil Co.	58,400.00	2.5
800	Standard Oil Company (New Jersey)	51,200.00	2.2
		<u>\$ 197,350.00</u>	<u>8.4</u>
	<b>PUBLIC UTILITY—ELECTRIC</b>		
900	Carolina Power & Light Co.	\$ 38,250.00	1.6
600	Texas Utilities Co.	28,800.00	1.2
		<u>\$ 67,050.00</u>	<u>2.8</u>

Shares	COMMON STOCKS (continued)	Quoted Market Value	% of Net Assets
	<b>PUBLIC UTILITIES—TELEPHONE</b>		
2,300	General Telephone & Electronics Corp.	\$ 89,700.00	3.8
3,500	United Utilities Inc.	<u>73,062.50</u>	<u>3.1</u>
		<u>\$ 162,762.50</u>	<u>6.9</u>
	<b>PUBLISHING</b>		
600	Harcourt, Brace & World, Inc.	\$ 47,400.00	2.0
500	Time Inc.	<u>40,125.00</u>	<u>1.7</u>
		<u>87,525.00</u>	<u>3.7</u>
	<b>Total Common Stocks</b>	<u>\$1,802,675.00</u>	<u>76.2</u>
	<b>CONVERTIBLE PREFERRED STOCKS</b>		
	<b>PETROLEUM</b>		
900	Union Oil Co. of California \$2.50	\$ 60,187.50	2.5
	<b>PUBLISHING</b>		
1,300	McGraw-Hill, Inc. \$1.20	\$ 65,650.00	2.8
	<b>Total Convertible Preferred Stocks</b>	<u>\$ 125,837.50</u>	<u>5.3</u>
	<b>CONVERTIBLE DEBENTURES</b>		
Face Value	Continental Telephone Corp. 5 $\frac{1}{4}$ %, 8/1/86	\$ 52,187.50	2.2
\$ 50,000	Pan American World Airways, Inc. 4 $\frac{1}{2}$ %, 8/1/86	<u>85,950.00</u>	<u>3.6</u>
\$ 90,000	United Air Lines, Inc. 4%, 3/1/90	<u>94,855.00</u>	<u>4.0</u>
\$ 61,000	<b>Total Convertible Debentures</b>	<u>\$ 232,992.50</u>	<u>9.8</u>
	<b>UNITED STATES GOVERNMENT OBLIGATIONS</b>		
\$202,000	U.S. Treasury bills 9/30/66	\$ 201,262.96	8.5
	<b>TOTAL INVESTMENTS</b>	<u>\$2,362,767.96</u>	<u>99.8</u>
	Cash and other assets, less liabilities	<u>5,312.68</u>	<u>.2</u>
	<b>NET ASSETS</b>	<u>\$2,368,080.64</u>	<u>100.0</u>

### Statement of Assets and Liabilities, August 31, 1966

<b>ASSETS:</b>	
Cash .....	\$ 297,894.96
Receivable for dividends and interest .....	7,150.24
Investments at market value (cost \$2,668,880.07) .....	<u>2,362,767.96</u>
Total assets .....	<u>2,667,813.16</u>
<b>LIABILITIES:</b>	
Payable for securities purchased .....	\$297,118.10
Accrued liabilities .....	<u>2,614.42</u>
Total liabilities .....	<u>299,732.52</u>
<b>NET ASSETS</b>	
applicable to 272,315.333 units of participation, equal to \$8.69 per unit ....	<u>\$2,368,080.64</u>

### Statement of Changes in Net Assets

For the Period from June 2, 1966  
(Commencement of Operations) to August 31, 1966

Net Assets, June 2, 1966 .....	\$ 220,000.00
Amounts received upon issue of 250,315.333 units .....	2,448,829.35
Net unrealized depreciation of investments .....	(306,112.11)
Net investment income .....	<u>5,363.40</u>
Net Assets, August 31, 1966 (including \$5,363.40 undistributed net investment income) .....	<u>\$2,368,080.64</u>

### Statement of Income and Expense

For the Period from June 2, 1966  
(Commencement of Operations) to August 31, 1966

<b>INCOME:</b>	
Dividends .....	\$ 6,066.11
Interest .....	<u>1,911.71</u>
	7,977.82
<b>EXPENSE:</b>	
Management fee (Note 3) .....	\$ 1,674.42
Auditing fee .....	800.00
State and local taxes (Note 2) .....	<u>140.00</u>
Net Investment Income .....	<u>\$ 5,363.40</u>

See accompanying Notes to Financial Statements.



## Notes to Financial Statements

(1) Rulings of the Comptroller of the Currency and of the Securities and Exchange Commission favorable to the Commingled Account are being challenged in the United States courts for the District of Columbia by the Investment Company Institute and the National Association of Securities Dealers, Inc., respectively. A decision adverse to either agency might affect the status of the Commingled Account and require its termination and the distribution of its net assets to participants.

(2) No provision for Federal income tax has been made in the accompanying financial statements because the Commingled Account expects to qualify as a regulated investment company within the meaning of the Internal Revenue Code, distributing to participants substantially all investment income and gains realized on sales of investments.

(3) The management fee is paid to First National City Bank as compensation for managing the investments of the Commingled Account and furnishing all custodian, administrative and clerical services, office space and facilities required for the operation of the Commingled Account. Three members of the Committee supervising the Commingled Account are officers of the Bank.

The accompanying financial statements do not include \$5,000 of fees paid to the two members of the Committee who are not affiliated with the Bank, which fees were reimbursed by the Bank. Also the Bank absorbed all organization expenses of the Commingled Account.

(4) Purchases of investment securities other than U.S. Treasury bills aggregated \$2,467,617.11. There were no sales of such securities.

## Opinion of Independent Certified Public Accountants

To the Committee and Participants of  
the Commingled Investment Account of  
First National City Bank:

We have examined the statement of assets and liabilities and the schedule of investments of the Commingled Investment Account of First National City Bank as of August 31, 1966, and the related statements of income and expenses and changes in net assets for the period from June 2, 1966 (commencement of operations) to August 31, 1966. We inspected the securities represented to us by the Bank as being held for the Commingled Investment Account as of August 31, 1966, obtained confirmations as to securities purchased but not yet received, and

found the securities so inspected and confirmed to be in agreement with the accompanying schedule of investments. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements and schedule present fairly the financial position of the Commingled Investment Account of First National City Bank at August 31, 1966 and the results of its operations for the period from June 2, 1966 to August 31, 1966, in conformity with generally accepted accounting principles applied on a consistent basis.

New York, September 9, 1966

Haskins & Sells

## Exhibit 17

### To The Participants:

We are pleased to present this Semi-Annual Report of the Commingled Investment Account's progress for the six months ended February 28, 1967.

Net asset value per unit of participation on February 28, 1967 registered a new high of \$10.80. This compares favorably with a unit value of \$8.69 on our previous reporting date, August 31, 1966, and represents an increase of 24%.

We have invested your funds in ten major industries with emphasis in the office equipment, electrical and electronics, drug and cosmetic, and airline groups. The portion of net assets invested in U. S. Treasury Bills was 16.9% on February 28, 1967. These funds function primarily as a reserve for future security purchases and place the Account in a position to take advantage of buying opportunities.

To satisfy frequent requests from our participants that we compare the performance of the Commingled Investment Account with that of the Dow Jones Industrial Average, the tabulation below reflects the percentage change on February 28, 1967 from June 2, 1966 (commencement of operations) and from August 31, 1966 (end of first fiscal year). While the Dow Jones is a widely recognized index of average market performance, we should point out that the stocks held in the Commingled Investment Account were selected for long term growth of capital and income and are therefore not truly comparable with the thirty stocks comprising the Dow Jones Industrial Average.

	% Change February 28, 1967 From				
	June 2, 1966	August 31, 1966	February 28, 1967	June 2, 1966	August 31, 1966
Net Assets Per Unit . . . . .	\$10.00	\$8.69	\$10.80	+8.0%	+24.3%
Dow Jones Industrial Average	882.73	788.41	839.37	-4.9	+ 6.5

Investing in common stocks and convertible securities for long-term growth of both capital and income is our stated investment policy. With this as our objective, we are continually alert to changing conditions and relative values. The rather sharp contraction in stock prices which began last summer continued into October, after which the general level of common stock prices improved despite the less robust economic climate. During this hectic period we effected a number of changes as opportunities arose. While good results over the near-term are gratifying, we want to re-emphasize that long-term goals determine our selections.

We invite your comments or questions.

*Robert L. Hoguet, Jr.*

Robert L. Hoguet, Jr.  
Chairman, Committee for the  
Commingled Investment Account

April 12, 1967

# Commingled Investment Account of First National City Bank

*Investments, February 28, 1967*

<u>Shares</u>	<u>Common Stocks</u>	<u>Quoted Market Value</u>	<u>% of Net Assets</u>
	<b>AIRLINES</b>		
2,100	Trans World Airlines, Inc. ....	\$ 164,325.00	3.6
	<b>CHEMICALS</b>		
1,100	Eastman Kodak Co. ....	\$ 159,087.50	3.5
	<b>DRUGS, COSMETICS, ETC.</b>		
1,600	Avon Products, Inc. ....	\$ 137,200.00	3.0
3,000	Becton, Dickinson & Co. ....	153,000.00	3.3
2,000	Bristol-Myers Co. ....	122,250.00	2.7
500	Lilly (Eli) & Co. ....	43,625.00	.9
1,100	Merck & Co., Inc. ....	86,625.00	1.9
		<u>\$ 542,700.00</u>	<u>11.8</u>
	<b>ELECTRICAL &amp; ELECTRONICS</b>		
2,000	International Telephone & Telegraph Corp. ....	\$ 172,500.00	3.8
1,000	Texas Instruments, Inc. ....	107,000.00	2.3
2,400	Zenith Radio Corporation ....	137,700.00	3.0
		<u>\$ 417,200.00</u>	<u>9.1</u>
	<b>FOOD &amp; ALLIED PRODUCTS</b>		
1,000	International Flavors & Fragrances, Inc. ....	\$ 41,250.00	.9
	<b>MACHINE TOOLS</b>		
3,500	Kearney & Trecker Corp. ....	\$ 142,187.50	3.1
	<b>OFFICE EQUIPMENT</b>		
800	International Business Machines Corp. ....	\$ 344,000.00	7.5
1,300	Xerox Corporation ....	323,700.00	7.1
		<u>\$ 667,700.00</u>	<u>14.6</u>
	<b>PETROLEUM</b>		
2,000	Louisiana Land & Exploration Co. ....	\$ 117,250.00	2.6
2,000	Pennzoil Co. ....	180,250.00	3.9
		<u>\$ 297,500.00</u>	<u>6.5</u>
	<b>PUBLIC UTILITIES—TELEPHONE</b>		
2,300	General Telephone & Electronics Corp. ....	\$ 112,700.00	2.5
5,000	United Utilities Inc. ....	150,000.00	3.3
		<u>\$ 262,700.00</u>	<u>5.8</u>

<u>Shares</u>		<u>Quoted Market Value</u>	<u>% of Net Assets</u>
	<b>Common Stocks (continued)</b>		
	<b>PUBLISHING</b>		
1,000	Harcourt, Brace & World, Inc. ....	\$ 97,000.00	2.1
	<b>Total Common Stocks</b> .....	<u>\$2,791,650.00</u>	<u>61.0</u>
	<b>Convertible Preferred Stocks</b>		
	<b>ELECTRICAL &amp; ELECTRONICS</b>		
700	Teledyne Inc. \$3.50 .....	\$ 89,775.00	2.0
1,500	Litton Industries, Inc. Non-cum. Pref. Ptc. ....	138,750.00	3.0
		<u>\$ 228,525.00</u>	<u>5.0</u>
	<b>PETROLEUM</b>		
2,000	Union Oil Co. of California \$2.50 .....	\$ 141,000.00	3.1
	<b>PUBLISHING</b>		
1,800	McGraw-Hill, Inc. \$1.20 .....	\$ 138,375.00	3.0
	<b>Total Convertible Preferred Stocks</b> .....	<u>\$ 507,900.00</u>	<u>11.1</u>
<u>Face Value</u>	<b>Convertible Debentures</b>		
\$ 50,000	Boeing Company Sub. 5 <sup>1</sup> / <sub>2</sub> % 9/1/91 .....	\$ 66,750.00	1.5
\$100,000	Continental Telephone Corp. 5 <sup>1</sup> / <sub>4</sub> % 8/1/86 .....	124,000.00	2.7
\$100,000	Pan American World Airways, Inc. 4 <sup>1</sup> / <sub>2</sub> % 8/1/86 .....	105,000.00	2.3
\$ 85,000	United Air Lines, Inc. 4% 3/1/90 .....	191,675.00	4.2
	<b>Total Convertible Debentures</b> .....	<u>\$ 487,425.00</u>	<u>10.7</u>
	<b>United States Government Obligations</b>		
\$524,000	U.S. Treasury Bills 3/31/67 .....	\$ 518,277.65	11.3
\$266,000	U.S. Treasury Bills 9/30/67 .....	258,597.10	5.6
	<b>Total United States Government Obligations</b> ...	<u>\$ 776,874.75</u>	<u>16.9</u>
	<b>Total Investments</b> .....	<u>\$4,563,849.75</u>	<u>99.7</u>
	<b>Cash and Other Assets, less Liabilities</b> .....	<u>15,794.11</u>	<u>.3</u>
	<b>NET ASSETS</b> .....	<u><u>\$4,579,643.86</u></u>	<u><u>100.0%</u></u>

# Commingled Investment Account of First National City Bank

## *Purchases and Sales of Investments (Excluding U.S. Treasury Bills) for the Six Months Ended February 28, 1967*

### **Purchases**

#### **Face Value**

\$50,000  
\$50,000  
\$10,000  
\$24,000

#### **CONVERTIBLE DEBENTURES**

Boeing Company Sub. 5<sup>1</sup>/<sub>2</sub>% 9/1/91  
Continental Telephone Corp. 5<sup>1</sup>/<sub>4</sub>% 8/1/86  
Pan American World Airways, Inc. 4<sup>1</sup>/<sub>2</sub>% 8/1/86  
United Air Lines, Inc. 4% 3/1/90

#### **Shares**

1,500  
500  
700  
1,100

#### **CONVERTIBLE PREFERRED STOCKS**

Litton Industries, Inc. Non-cum. Pref. Ptc.  
McGraw-Hill, Inc. \$1.20  
Teledyne Inc. \$3.50  
Union Oil Co. of California \$2.50

#### **COMMON STOCKS**

400  
3,000\*  
1,300\*  
200  
400  
100  
1,000  
600  
3,500  
500  
1,200  
1,000  
700  
1,500  
800  
800

Avon Products, Inc.  
Becton, Dickinson & Co.  
Bristol-Myers Co.  
Eastman Kodak Co.  
Harcourt, Brace & World, Inc.  
International Business Machines Corp.  
International Flavors & Fragrances, Inc.  
International Telephone & Telegraph Corp.  
Kearney & Trecker Corp.  
Lilly (Eli) & Co.  
Pennzoil Co.  
Texas Instruments, Inc.  
Trans World Airlines, Inc.  
United Utilities Inc.  
Xerox Corporation  
Zenith Radio Corporation

### **Sales**

#### **Shares**

4,000  
900  
400  
2,000  
800  
600  
500  
600

#### **COMMON STOCKS**

Boise Cascade Corporation  
Carolina Power & Light Co.  
Coca Cola Co.  
Monsanto Co.  
Standard Oil Co. (New Jersey)  
Texas Utilities Co.  
Time Inc.  
Xerox Corporation

\* Includes shares received as result of stock split.

## Statement of Assets and Liabilities, February 28, 1967

### ASSETS:

Cash .....		\$ 88,665.62
Receivable for securities sold .....		33,601.42
Receivable for dividends and interest .....		13,852.26
Investments at market value:		
United States Government Obligations (cost \$776,874.75) .....	\$ 776,874.75	
Other (cost \$3,327,929.17) .....	<u>3,786,975.00</u>	<u>4,563,849.75</u>
Total assets .....		<u>4,699,969.05</u>

### LIABILITIES:

Payable for securities purchased .....	\$ 111,426.75	
Accrued liabilities .....	<u>8,898.44</u>	
Total liabilities .....		<u>120,325.19</u>

### NET ASSETS

applicable to 424,179.051 units of participation, equal to \$10.80 per unit. ....	<u>\$4,579,643.86</u>
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## Statement of Changes in Net Assets

For the Six Months Ended February 28, 1967

Net Assets, August 31, 1966 (including \$5,363.40 undistributed net investment income) .....		\$2,368,080.64
Income:		
Net investment income .....	\$ 22,974.43	
Undistributed net investment income included in amounts received or paid upon issue and redemption of units. ....	5,553.86	
Dividends (\$.05 a unit) .....	<u>(16,340.99)</u>	12,187.30
Units issued and redeemed:		
Amounts received upon issue of 159,806.168 units .....	\$1,526,821.70	
Amounts paid upon redemption of 7,942.450 units .....	<u>73,577.99</u>	1,453,243.71
Realized loss on sale of investments (Note 3) .....		(19,025.73)
Increase in unrealized appreciation of investments .....		<u>765,157.94</u>
Net assets, February 28, 1967 (including \$17,550.70 undistributed net investment income) .....		<u>\$4,579,643.86</u>

See accompanying Notes to Financial Statements.



# Commingled Investment Account - First National City Bank

## Statement of Income and Expense

For the Six Months Ended February 28, 1967

<b>INCOME:</b>		
Dividends .....		\$23,490.00
Interest .....		<u>13,611.78</u>
		37,101.78
<b>EXPENSE:</b>		
Management fee (Note 5) .....	\$8,089.15	
Legal and auditing fees .....	5,000.00	
Proxy statements and reports to Securities and Exchange Commission .....	698.20	
State and local taxes (Note 2) .....	<u>340.00</u>	14,127.35
Net Investment Income .....		<u>\$22,974.43</u>

### Notes to Financial Statements

(1) Rulings of the Comptroller of the Currency and of the Securities and Exchange Commission favorable to the Commingled Account are under attack in the United States courts for the District of Columbia by the Investment Company Institute and the National Association of Securities Dealers, Inc., respectively. A decision adverse to either agency might affect the status of the Commingled Account and require its termination and the distribution of its net assets to participants.

(2) No provision for Federal income tax has been made in the accompanying financial statements because the Commingled Account has elected to be taxed as a regulated investment company within the meaning of the Internal Revenue Code, distributing to participants substantially all investment income as quarterly dividends and gains realized on sales of investments as an annual distribution.

(3) Gains and losses on sales of investments

are based upon the cost of identified securities. If based on average cost the net loss would have been \$48,490.66.

(4) Purchases and sales of investments, other than United States Government securities, amounted to \$1,410,329.06 and \$530,991.27 respectively, during the period.

(5) The management fee is paid to First National City Bank as compensation for managing the investments of the Commingled Account and furnishing all custodian, administrative and clerical services, office space and facilities required for the operation of the Commingled Account. Three members of the Committee supervising the Commingled Account are officers of the Bank.

The accompanying financial statements do not include \$5,000 of fees paid during the six months ended February 28, 1967 to the two members of the Committee who are not affiliated with the Bank, which fees were reimbursed by the Bank.

To the Committee for and Participants in  
the Commingled Investment Account of  
First National City Bank:

We have examined the statement of assets and liabilities and the schedule of investments of the Commingled Investment Account of First National City Bank as of February 28, 1967, the related statements of income and expenses and changes in net assets for the six months then ended, and the supplemental schedule of purchases and sales of investments. We inspected the securities represented to us by the Bank as being held for the Commingled Investment Account as of February 28, 1967, obtained confirmations as to securities purchased but not yet received, and found the securities so inspected and confirmed to be in agreement with the accompanying schedule of investments. Our examination was made in accordance with generally accepted auditing stand-

ards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements and schedule of investments present fairly the financial position of the Commingled Investment Account of First National City Bank at February 28, 1967 and the results of its operations for the six months then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding period, and the supplemental schedule of purchases and sales of investments, when considered in relation to the basic financial statements, presents fairly the information shown therein.

Haskins & Sells

New York, N. Y.  
March 10, 1967

#### COMINGLED INVESTMENT ACCOUNT OF FIRST NATIONAL CITY BANK

**PURPOSE:** To make First National City Bank's investment advisory services available to investors with \$10,000 or more.

**INVESTMENT POLICY:** To invest principally in common stocks and convertible securities offering opportunity for long-term growth of capital and of income.

**INVESTMENT PHILOSOPHY:** To emphasize the careful selection of securities based on intensive research and analysis of the many factors which determine investment values, with primary emphasis on companies which meet as many of the following criteria as possible:

- high quality and character of management
- effective research and development capability
- low labor costs
- leadership within an industry
- strong underlying growth trend
- sales and service oriented companies

To reappraise constantly the securities held in the portfolio to be sure they continue to reflect the investment philosophy set forth above.

[Filed April 4, 1967]

IN THE UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF COLUMBIA

INVESTMENT COMPANY INSTITUTE, et al., )  
Plaintiffs, )

v. )

WILLIAM D. CAMP,  
Comptroller of the Currency,  
Defendant )

Civil Action No. 1083-66

DEFENDANT'S CROSS-MOTION FOR SUMMARY JUDGMENT  
AND OPPOSITION TO PLAINTIFFS'  
MOTION FOR SUMMARY JUDGMENT

Defendant, William B. Camp, Comptroller of the  
Currency, by his undersigned attorneys, respectfully cross-moves  
for summary judgment pursuant to Rule 56 of the Federal Rules of  
Civil Procedure and opposes plaintiffs' motion for summary judg-  
ment on the following grounds:

1. Plaintiffs lack standing to maintain this action.
2. There is no justiciable case or controversy  
between the plaintiffs and defendant.
3. Assuming, arguendo, that plaintiffs have  
standing, the Comptroller's regulations  
permitting, national banks to establish  
collective investment funds for agency  
accounts and the Comptroller's ruling in

connection with the Bank's proposal are in accordance with law and not in excess of his statutory authority:

- a. Such regulations and ruling authorize fiduciary activities permitted by paragraph (a) of Section 1 of the Act of September 28, 1962, 76 Stat. 668, 12 U.S.C. 92a, and are within the scope of the Comptroller's regulatory powers under paragraph (j) of that action.
- b. Such regulations and ruling do not authorize any violation of Sections 16, 20, 21 or 32 of the Banking Act of 1933, 48 Stat. 184, 188, 189, 194, as amended, 12 U.S.C. 24 (para. Seventh), 377, 378, 78 (the Banking Act of 1933, as amended).

In support of this cross-motion and opposition, the Court is respectfully referred to the defendant's affidavit and the affidavit of Robert L. Hoguet, Jr., annexed hereto and to the memorandum of points and authorities filed herewith.

Respectfully submitted,

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BAREFOOT SANDERS  
Assistant Attorney General

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HARLAND F. LEATHERS

- 3 -

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IRWIN GOLDBLOOM

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STEPHEN N. TRUITT

Attorneys, Department of Justice  
Washington, D. C. 28530

Attorneys for Defendant

- 211 -

IN THE UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF COLUMBIA

INVESTMENT COMPANY INSTITUTE, et al.,	)	
	)	
Plaintiffs,	)	
	)	
v.	)	Civil Action No. 1083-66
	)	
	)	
WILLIAM B. CAMP, COMPTROLLER OF THE	)	
CURRENCY OF THE UNITED STATES,	)	
	)	
Defendant	)	

AFFIDAVIT

District of Columbia, ss:

William B. Camp being duly sworn, deposes and says  
under oath that:

1. I am Comptroller of the Currency duly appointed by the President of the United States, and, as Comptroller of the Currency, I have responsibility for the administration of the National Bank Act, Title 12 U.S.C., Section 1, et seq., and for supervision and regulation of the approximately 4,800 national banks now operating pursuant thereto.
2. I make this affidavit on the basis of personal knowledge and the records of this Office.
3. On September 28, 1962, Congress, by the enactment of P.L. 87-722, 76 Stat. 668, transferred from the Board of Governors of the Federal Reserve System to the Comptroller of the Currency the responsibility and power to regulate the fiduciary activities of national banks.
4. In response to these increased responsibilities, the Office of the Comptroller of the Currency (the "Office") immediately strengthened its trust division and created a new position entitled "Deputy Comptroller of the Currency for Trusts."



5. Shortly thereafter the Office requested that all national banks and all state banks operating collective investment funds submit to the Office recommendations as to how the existing fiduciary regulations might be improved. The voluminous response convinced the Office that some changes in the regulations were required. To this end, the Comptroller appointed a committee of prominent trust men and directed them to make a thorough study of the fiduciary regulations, with a view toward their revision.

6. As a result of these studies, the Comptroller decided that certain provisions of the existing regulations were in need of revision. Specific amendments, which affected all areas of national bank trust department activity, and which the Comptroller deemed consistent with the letter and spirit of the banking laws, were drafted.

7. Among other things, it was determined that the regulations governing collective investment of funds held by a bank in a fiduciary capacity were unduly and unnecessarily restrictive. The existing regulations authorized a national bank to collectively invest funds held in its capacity of trustee, executor, administrator, or guardian and funds which formed part of a tax exempt pension, profit sharing or stock bonus plan of an employer for the exclusive benefit of his employees. Under these regulations a national bank was not authorized to collectively invest funds held in the capacity of managing agent.

8. Under a discretionary managing agency agreement a customer turns funds or securities over to the bank and the bank undertakes to hold and manage a portfolio of investments

for the customer pursuant to a power of attorney which gives the bank complete investment discretion. For this service, which includes holding the securities, collecting and disbursing dividends or interest, making purchases and sales, and securities analysis, the bank charges a fee.

9. The Federal Reserve Board and the Comptroller of the Currency have consistently taken the position that a national bank cannot enter into such a managing agency agreement unless the bank has applied for and received fiduciary powers. This position is dictated by the fact that a bank holding a managing agency account has a fiduciary relationship with the beneficiary of the account, which relationship is in substance very similar to that of a trustee and beneficiary.

10. The Comptroller determined, after consultation with his counsel and counsel for the committee, that insofar as collective investment was concerned, there was no legal reason whatsoever for distinguishing between funds held by a bank as trustee, executor, administrator or guardian, and funds held under a managing agency agreement.

11. Records of this Office indicate that national banks have managed customers' money under managing agency agreements since at least 1930. However, due to the regulations which did not permit the collective investment of funds so held, each account had to be invested separately. The time and expense incurred in investing each account separately was such that banks could not profitably offer this service to

any except those with substantial amounts of money to invest, often \$100,000 or more. The management of smaller amounts resulted either in a fee that was unduly high relative to the amount invested, or in losses to the bank. Furthermore, smaller amounts were not able to achieve the diversification of assets which a sound investment program requires. Thus national banks were effectively foreclosed from making their investment facilities and expertise available to any but the wealthy.

12. On the other hand, national banks were operating such collective investment funds as were authorized by the existing regulations had discovered that relatively smaller trusts or estates could be invested and administered at reduced cost. This, of course, resulted from the economies inherent in managing one large collective investment fund rather than numerous individual small ones.

13. The manner in which banks operate these investment funds is substantially as follows: In its capacity of trustee, executor, administrator or guardian, or as trustee or agent for a pension, profit sharing or stock bonus plan, the bank receives certain funds. If not inconsistent with the trust instrument (the term "trust" is used to include any of the above-listed fiduciary capacities) or State law, the trust funds are used to purchase participations in an existing pool of assets (collective investment fund) held for the benefit of similar trusts. The individual trust's interest in the pool is measured by units of participation. When a collective

investment fund is formed, each of these units of participation is given an arbitrary dollar value, but thereafter the value of these units fluctuates as the value of the pooled assets fluctuate. Thus the number of units which a given amount of money will buy depends on the value of the assets in the fund in relation to the number of units of participation outstanding. After the units are valued and the individual participating trust acquires as many as its funds entitled it to, the units of participation, which are evidenced by book entries, become the rest of the individual participating trust.

14. In view of the foregoing the Comptroller, with the concurrence of the General Counsel of the Treasury Department, published in the Federal Register for February 5, 1963, a proposed revision of the fiduciary regulations (12 C.F.R., Section 9). In addition to the types of collective investment funds permitted under prior regulations, this proposed revision provided in Section 9.18(c)(3) that national banks were authorized to invest funds held in the capacity of managing agent in a collective investment fund. Also, Section 9.18(c)(5) of the proposed revision provided that national banks holding funds in a fiduciary capacity could, with the approval of the Comptroller, collectively invest such funds in manners other than those expressly provided by Regulation 9.

15. After publication the Office received various comments and criticisms from banks and others. The Investment Company Institute (ICI) submitted a statement which

challenged the legality of so much of the proposed regulation as authorized national banks to collectively invest funds held in the capacity of managing agent. ICI argued that the revised regulations would permit activity prohibited by 12 U.S.C. Section 92a, and certain provisions of the Glass-Steagall Act, as amended, 12 U.S.C. Sections 24, 78, 277 and 278.

16. The Comptroller considered the arguments presented and determined, with advice of counsel, that they were without merit. The revised regulations (with minor modifications) became effective on April 5, 1963.

17. Since the Securities and Exchange Commission took the view that a collective investment fund for managing agency accounts as expressly authorized by Section 9.18(c)(3) of Regulation 9 would have to be registered under the Investment Company Act of 1940, and the interests therein registered under the Securities Act of 1933, there was no immediate attempt by any bank to establish such a fund. Then, early in 1965, the First National City Bank of New York, after consultation with the staff of the S.E.C., drafted a plan for the collective investment of managing agency accounts, which the Bank referred to as a Commingled Investment Account. The plan complied with each of the provisions of Section 9.18(b) of Regulation 9, generally relating to collective investment funds, except that a few modifications were effected to facilitate compliance with the Investment Company Act of 1940. Because this plan, which in the opinion of the Bank's

counsel was permitted under New York law, differed from the specifically enumerated collective investment funds authorized by the Comptroller's revised Regulation, the Bank, pursuant to 12 C.F.R. 9.18(c)(5), sought and obtained the Comptroller's express written approval of the plan. A copy of the approval as set forth in the letter of May 10, 1965, is attached hereto as Exhibit "A". This plan was also approved by the Board of Governors of the Federal Reserve System as not involving a violation of Section 32 of the Banking Act of 1933, 12 U.S.C. 78. The Commingled Investment Account was registered under the Investment Company Act.

18. A national bank's operation of a fund for the collective investment of money held in the capacity of managing agent does not differ materially from the operation of a fund for the collective investment of money held in the capacity of trustee. In the latter case the fiduciary capacity in which the bank receives and holds the money is designated "trustee," in the former, it is designated "managing agent." In both cases the fiduciary relationship between the bank and the individual customer continues while the funds are collectively invested. Given this continuing fiduciary relationship, both types of collective fund are considered by this Office to be fully consistent with the letter and spirit of the national banking laws.

19. In the considered opinion of the Office of the Comptroller of the Currency, the collective investment of funds held by national banks in the capacity of managing agent will be beneficial to the banks and to the public by enabling banks to make available their investment and managerial expertise to a class of persons who have heretofore not been able to afford it.

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William B. Camp  
Comptroller of the Currency of the  
United States



IN THE UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF COLUMBIA

-----x  
INVESTMENT COMPANY INSTITUTE, ET AL., :

Plaintiffs, :

v. :

Civil Action  
No. 1083-65

WILLIAM B. CAMP, :

Defendant. :

-----x  
AFFIDAVIT OF ROBERT L. HOGUET, JR.  
IN SUPPORT OF DEFENDANT'S CROSS-MOTION  
FOR SUMMARY JUDGMENT

STATE OF NEW YORK )  
COUNTY OF NEW YORK ) ss.:

ROBERT L. HOGUET, JR., being first duly sworn,  
deposes and says as follows:

1. I am an Executive Vice President of First National City Bank (the "Bank") and am in charge of the Bank's Trust and Investment Division. I am also Chairman of the Committee for the Bank's Commingled Investment Account (the "Commingled Account"). I submit this affidavit in support of defendant's cross-motion for summary judgment in this action.

2. The Bank is a national banking association having its principal place of business in the City, County and State of New York. Through its Trust and Investment Division, the Bank provides its customers with a full range of fiduciary services. A copy of the Bank's permit

to exercise fiduciary powers, issued by the Federal Reserve Board to the Bank's predecessor on January 29, 1919, is attached hereto as Exhibit A. Pursuant to this permit the Bank has the right to act, when not in contravention of state or local law, as trustee, executor, etc., "or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks, are permitted to act under the laws of the State of New York."

3. Whenever the Bank acts as trustee, its principal function is the investment management of the trust assets. The Bank, of course, performs other important duties, such as the safe-keeping of the trust assets and the disbursement of income and principal in accordance with the terms of the governing instrument. But the trust business is primarily the business of providing continuous, professional management of investments. To render this service, the Bank's Trust and Investment Division maintains an Investment Research Department which is constantly studying and evaluating the investment potential of various industries and companies. The Trust and Investment Division also has available to it the views of the Bank's Economics Department as to current economic conditions and long-range trends. Each of these Departments is staffed with full-time, highly qualified personnel who have on hand information which no individual trustee or investor could hope to assemble. The trust officers responsible for the supervision of the Bank's trust accounts utilize the investment and economic analyses of these Departments in making investment decisions for

such accounts.

4. As a natural adjunct to the management of trust funds, the Bank has also for many years provided investment advisory services to customers who do not wish to create a trust, but who do want the benefit of the Bank's professional investment management and custodial service. For such customers the Bank acts as agent rather than as trustee. Under one type of agency arrangement the Bank manages the investments in the account pursuant to a power of attorney giving the Bank full investment discretion. This type of account is known in the banking industry as a "managing agency account", and many state-chartered banks and trust companies in New York which are in competition with the Bank have offered this type of investment advisory service for years.

5. Individual investment management of either a trust or an agency account entails certain administrative duties which must be performed separately for each account, regardless of size. These duties include holding and handling portfolio securities, making purchases and sales, collecting and disbursing dividends and exercising investment supervision - all on an individual basis. Larger accounts generate a fee which is sufficient to cover these administrative costs; but a fee charged at the same rate (i.e., percentage of asset value) to a smaller account is likely to be insufficient, and the fee cannot be increased without becoming excessive in relation to the amount under management. Thus, in the case of managing agency accounts, the Bank's administrative expense for individual supervision has in recent years

dictated a minimum charge of \$1,000 a year, and the Bank has not generally accepted such accounts unless the customer's investment funds amounted to at least \$200,000. There has been, however, a constant demand for the Bank's investment management services from customers with more modest amounts to invest, and the Bank has searched for methods of reducing administrative costs in order to enable it to accept such accounts.

6. With respect to smaller trust accounts, the Bank has for many years been able to minimize administrative costs by commingling the assets of these trusts for investment purposes in a common trust fund. The economies of collective investment are such that the Bank can afford to accept trust accounts that it would otherwise have to refuse if forced to manage such accounts on an individual basis. The Bank operates a number of collective investment funds which have been established pursuant to Regulation 9 of the Comptroller of the Currency (12 CFR 9) or prior regulations of the Federal Reserve Board. Those funds which the Bank has established for the collective investment of assets which it holds in its capacity as personal or testamentary trustee, executor, administrator or guardian are also established and operated in conformity with Section 100-c of the New York Banking Law. Those funds which the Bank has established for the collective investment of assets held as trustee of employee-benefit pension or profit-sharing trusts are not established and operated pursuant

to Section 100-c of the New York Banking Law. The Bank has been advised by counsel that, since the governing instrument of each trust participating in the collective investment funds for employee-benefit trusts specifically authorizes the commingling of trust assets, such collective funds can be maintained as "contract" funds and that there is no need to look to Section 100-c for authority to commingle. On information and belief, state-chartered banks in New York also maintain similar collective funds for the investment of assets of employee-benefit trusts which are established and operated as "contract" funds and not pursuant to Section 100-c of the New York Banking Law.

7. In 1963 the Comptroller of the Currency revised Regulation 9 to permit the same technique of collective investment to be used with respect to managing agency accounts. This revision cleared the way for the Bank to develop its proposal for the Commingled Account. The Commingled Account is designed for those customers who wish to obtain the Bank's investment management services but who do not have sufficient capital to justify the expense of an individually supervised account. The Commingled Account is operated in accordance with a plan that has been filed with the Comptroller of the Currency and which also serves as a Securities Act prospectus. The Commingled Account works this way: The customer turns his funds (\$10,000 or more) over to the Bank pursuant to a broad authorization

making the Bank the customer's managing agent. There is thus created at the outset a true fiduciary relationship of principal and agent between each customer and the Bank. The authorization includes specific authority for the Bank to invest the customer's funds, together with the funds of other customers who have given the same authorization, through the Commingled Account. If the Bank is satisfied that the investment policy of the Commingled Account is suitable to the customer's needs, the Bank accepts the customer's account and, as his agent, adds his funds to the Commingled Account on one of the specified valuation dates.

8. Each customer who participates in the Commingled Account shares in proportion to the amount of his funds which are included. For convenience in determining the proportionate interest of each participating customer (or "participant"), the Commingled Account is divided into units of equal value. A participation is transferable only to another person who has validly appointed the Bank as managing agent, and, because of the underlying agency relationship, the interest of a participant terminates upon his death or incompetency and his funds are withdrawn from the Commingled Account and held for his legal representatives.

9. There is no charge either for admission to or withdrawal from the Commingled Account. Each dollar received by the Bank for investment through the Commingled Account participates in full. No broker or dealer is engaged to underwrite or distribute participations, and no sales commission is paid to anyone in connection with the admission of a participant to the Commingled Account.



10. The operation of the Commingled Account is supervised by a Committee initially appointed by the Bank but thereafter elected annually by the participants. (The first election was held on November 16, 1966.) At least 40% of the members of the Committee must at all times be persons not affiliated with the Bank, but the majority of the members may be, and are expected to be, officers in the Bank's Trust and Investment Division. At the present time, three of the five Committee members are Bank officers.

11. The Bank manages the Commingled Account pursuant to a management agreement. The Bank maintains a continuous investment program consistent with the Commingled Account's stated investment policy, and the Bank also furnishes all custodial, administrative and clerical services required for the operation of the Commingled Account. For all of these services the Bank is entitled to withdraw from the Commingled Account a management fee equal, on an annual basis, to  $1/2$  of 1% of the average net asset value of the Commingled Account. In other words, a customer who invests \$10,000 through the Commingled Account pays \$50 for a year's management, which is equivalent to the \$1,000 which is charged for a year's management of a \$200,000 individual account. Whether a customer invests through the Commingled Account or has an individually supervised account, the management fee is the only fee which the Bank receives; there is no underwriting or distributing profit involved in the operation of the Commingled Account.

12. The arrangement for the Commingled Account has been considered and passed upon by the three Federal

bank supervisory agencies and the Securities and Exchange Commission. The Comptroller of the Currency has approved the Commingled Account as a permissible form of collective investment subject to the requirements of Section 9.18 of Regulation 9, 12 C.F.R. § 9.18 (Supp. 1966). See Hearings on S. 2704 Before a Subcommittee of the Senate Committee on Banking and Currency, 89th Cong., 2d Sess. 418 (1966) [hereinafter referred to as the "Hearings"]. The Board of Governors of the Federal Reserve System has ruled that service by Bank officers on the Committee for the Commingled Account will not violate Section 32 of the Banking Act of 1933, 48 Stat. 194, as amended, 49 Stat. 709 (1935), 12 U.S.C. § 73. See Hearings 580. The Federal Deposit Insurance Corporation has stated that it believes that it is "sound public policy to permit banks collectively to invest funds held in the capacity of managing agent for their customers." See Hearings 25. And the Securities and Exchange Commission has found that the Commingled Account can be operated in conformity with all of the purposes and policies of the Federal securities laws. See Hearings 138.

13. In my view, the Commingled Account has in its short existence proven itself as a valid extension of traditional bank fiduciary services. First National City Bank already exercises investment responsibility or gives investment advice in respect of accounts having aggregate assets of more than \$3.5 billion. The Bank has had extensive experience in the operation of common trust funds. It is an institution of proven financial stability and has

a long history of investment experience. It is seeking to make this experience available for the first time to the smaller investor at a low relative cost and without the imposition of any sales commission or "load". The Bank officers who are consulted by customers in connection with participation in the Commingled Account have no sales commission to earn by "selling" a customer on the advantages of the Commingled Account. Such officers are instructed that only persons for whom the Commingled Account constitutes a suitable investment medium should be permitted to participate. The Bank's operation of the Commingled Account is subject to successive layers of regulation imposed by banking authorities, the common law applicable to fiduciaries and the laws administered by the Securities and Exchange Commission. If a service of this nature is in fact competitive with mutual funds, as plaintiffs claim, the competition is entirely lawful and can only redound to the benefit of the public in terms of lower sales commissions on mutual fund shares.

  
Robert L. Hoguet, Jr.

Subscribed and sworn to  
before me this 30<sup>th</sup> day  
of March, 1967.

s/s Mary P. O'Neill

Notary Public

MARY P. O'NEILL  
Notary Public, State of New York  
No. 03-2965965  
Qualified in Bronx County  
Cert. Filed in New York County  
Commission Expires March 30, 1969

[NOTARIAL SEAL]



# FEDERAL RESERVE BOARD

Washington, D.C. January 29, 1919. 19\_\_

Government authority vested in the Federal Reserve Board by the Act of Congress approved December 23, 1913, known as the Federal Reserve Act, as amended by the Act of September 26, 1914, the NATIONAL CITY BANK OF NEW YORK, NEW YORK . . . . .

has been granted the right to act upon, and in contribution of, State or local laws, Ordinances, Executive Administrations, Regulations of stocks and bonds, Sanctions of estates, Business, Mining, Committee of estates of, Insurance, or in any other, pertaining to partnership, which State banks and companies or other organizations which come into competition with national banks are permitted to act under the laws of the State of NEW YORK.

The exercise of such rights shall be subject to regulations prescribed by the Federal Reserve Board.

Federal Reserve Board

State

As President  
Secretary

As Secretary  
Secretary

May 10, 1965

Mr. Robert L. Hoguet, Jr.  
Executive Vice President  
First National City Bank  
399 Park Avenue  
New York, New York

Dear Mr. Hoguet:

This is in reply to your request of April 26 for our approval of an arrangement to be entered into by the bank whereby funds of agency accounts which confer investment discretion on the bank are to be invested and reinvested in a single commingled account.

More specifically, the principal features of the arrangement are as follows:

The funds of certain agency accounts of at least \$10,000 in amount will be commingled for investment purposes. Funds deposited with the bank for this purpose will be accompanied by a broad authorization to the bank, substantially equivalent to the power of attorney under which customers currently deposit their funds for individual attention.

The availability of the commingled account will not be given publicity by the bank except in connection with the promotion of its fiduciary services in general and the bank will not advertise or publicize the commingled account as such. Participations in the commingled account are to be made available only on the premises of the bank and its branches, or to persons who are already customers of the bank in other connections, or in response to unsolicited requests.

The Plan of the commingled account and the letter of authorization signed by the customer will be delivered to each customer of the bank who empowers the bank to invest his funds in the commingled account.

The commingled account will operate as follows. The supervision of the commingled account will be in the hands of a committee, the members of which will initially be appointed by the bank but thereafter elected by the participants at annual meetings. It is expected that officers of the bank will be members of the committee, except that at all times there will be at least one member who is independent of the bank. Pursuant to a management

Mr. Robert L. Hoguet, Jr.

agreement with the committee, the bank will be responsible for the management of the investments in the commingled account, will have custody of the assets in the commingled account, will handle all transactions in the portfolio of the commingled account, and will maintain the records and keep the books of the commingled account.

The management agreement shall be subject to the approval of the participants at their first annual meeting. The management agreement will remain in force for two years from the date of its execution and is renewable annually thereafter, provided that such continuance is approved annually by the committee, including a majority of the members of the committee who are not directors, officers, or employees of the bank, or by vote of participants having a majority of units of participation. No compensation is to be paid out of the commingled account to any of the members of the committee who are affiliated with the bank. Compensation and expenses, if any, may be paid to the members of the committee who are not affiliated with the bank, but the commingled account will be reimbursed by the bank. The agreement provides that the bank will maintain a continuous investment program for the commingled account not inconsistent with its stated investment policy. The bank will determine what securities are to be purchased or sold for the commingled account and will execute transactions for the commingled account accordingly. The agreement further provides that the bank will furnish all custodian, administrative and clerical services, office space, and facilities required for the operation of the commingled account.

The interest of each customer participating in the commingled account is to be reflected in one or more units of participation and all such units shall have equal value. As evidence of the number of units of participation credited to a customer, a receipt will be given for his funds so deposited. Except for periods during which the calculation of net asset value may be suspended as permitted by the rules and regulations of the Securities and Exchange Commission and as detailed in the Plan, a customer will at any time be able to terminate his participation and cause a calculation of net asset value to be made for purposes of determining the value of the units of participation which are to be terminated and the amount to be withdrawn from the commingled account. In order to protect the rights of



participants in the event of a suspension of the payment of terminating distributions, it is provided that if at the time of any such suspension a participant shall have given a notice of termination but shall not yet have received a distribution, such participant shall have the right to withdraw the notice of termination. Termination will occur automatically upon the death of or adjudicated incompetency of the participant. Receipts for units of participation will not as such be transferable by a customer but a participant will be able to transfer his interest in the commingled account only to persons who have the legal capacity to appoint the bank as agent and who sign the broad authorization to the bank to have such funds so invested.

The commingled account will be audited at least semiannually by independent public accountants selected by the committee and approved by the participants. The financial reports based upon such audits, containing financial statements and other information as required by applicable laws and regulations, shall be filed with the appropriate regulatory authorities and shall be addressed to the committee and to the participants.

For the bank's services, the commingled account will be charged as of the last day of each fiscal quarter a fee payable to the bank based on a percentage of the average of the values of the net assets of the commingled account taken on each valuation date during such quarter for the purposes of determining the asset value of units of participation in the commingled account. The quarterly fee which the bank will receive from the commingled account pursuant to the management agreement will be the only fee charged by the bank in connection with the operation of the commingled account and shall not exceed the fee charged for investment advisory service for individual accounts of less than \$500,000 if assets of the participant had not been invested in participations in the fund. Further, the bank will absorb all costs arising in connection with the organization of the commingled account, which shall include, among other things, costs and expenses attributable to the initial registration and qualification of the commingled account under the federal securities laws; the initial determination of its tax status and any rulings obtained for this purpose; its qualification under the laws of any State; and its approval by the Comptroller of the Currency. The expenses that are charged to the

Mr. Robert L. Hoguet, Jr.

commingled account are brokers' commissions; cost of independent professional services such as legal, auditing or accounting services (other than in connection with the organization of the commingled account), taxes or governmental fees attributable to transactions for the commingled account, or to income from the commingled account assets; costs of maintaining the registration and qualification of the commingled account under the federal securities laws or other applicable regulatory requirements (other than the cost of printing, publication and distribution of current reports to participants, which will be borne by the bank); and the cost of preparation and distribution of notices to participants and proxy statements.

The preceding arrangement is a form of collective investment subject to the requirements of Section 9.18 of Regulation 9. As contemplated, the commingled account does not comply with certain provisions of Section 9.18(b) of the Regulation. However, it appears to us that the arrangement would be a desirable one for the bank and the participating accounts and would embody all of the protections deemed necessary by this Office. Accordingly, pursuant to the provisions of Section 9.18(c)(5) of Regulation 9, the arrangement, and any minor changes within the Plan, letter of authorization and receipt which may be made and which do not detract from the substance of the proposal, is hereby approved so long as the rules and regulations of the Comptroller of the Currency applicable to collective investment, specifically the provisions of Section 9.18(b), except as provided for in the foregoing arrangement, are complied with during the life of the arrangement. In addition, the management contract has the approval of this Office; however, any changes which are made in the contract must be approved by the Comptroller.

Sincerely,

(Signed) James J. Saxon

James J. Saxon  
Comptroller of the Currency

RPSt.P-rg 4-28-65

UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF COLUMBIA

INVESTMENT COMPANY INSTITUTE, et al.,	:	
	:	
Plaintiffs	:	
	:	
v.	:	Civil Action
	:	
WILLIAM B. CAMP, Comptroller of the	:	No. 1083-66
Currency,	:	
Defendant	:	

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OPINION

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G. Duane Vieth, Esq., James F. Fitzpatrick, Esq., Charles R. Halpern, Esq., Arnold & Porter, Esqs., and Robert L. Augenblick, Esq., for plaintiffs.

Barefoot Sanders, Assistant Attorney General, Harland F. Leathers, Esq., Irwin Goldbloom, Esq., and Stephen M. Truitt, Esq., Department of Justice, David G. Bress, United States Attorney, and Joseph M. Hannon, Esq., Assistant United States Attorney, for defendant.

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This action is brought against the Comptroller of the Currency by the Investment Company Institute in its representative capacity of the open-end investment companies, investment advisers and principal underwriters which comprise its membership. The Investment Company Institute (hereinafter called the Institute) is an unincorporated association, having its principal place of business in the city, county and state of New York. The Institute is a national association, having as its members 177 open-end management investment companies and their 88 investment advisers and 78 principal underwriters. The open-end management investment companies which are members of the Institute have assets of \$36 billion, representing about 94 percent of the assets of all such companies in the United

States, and have approximately 3.5 million shareholders. The other plaintiffs in this action are several individual members of the Institute. They seek an injunction to restrain the Comptroller from authorizing national banks to collectively invest funds tendered to the bank as managing agent solely for investment purposes. They also pray for a declaratory judgment adjudicating the pertinent regulation promulgated by the Comptroller to be invalid.

The action is now before this court on cross motions for summary judgment, all of the parties agreeing that no factual issues exist and that the legal issues are ripe for disposition by summary proceedings.

It is first necessary to review and to delineate the factual background upon which the issues in this action arose and within which these motions are made. In September of 1962 the statutory authority to regulate the fiduciary activities of national banks was transferred from the Board of Governors of the Federal Reserve System to the Comptroller of the Currency. Pub. L. 87-722, 76 Stat. 668, 12 U.S.C. § 92 a.. Pursuant to this authority, the Comptroller caused to be published in the Federal Register for February 5, 1963, a proposed revision of the fiduciary regulation, 12 C.F.R. § 9. In addition to the types of collective investment funds permitted under the prior regulation, this proposed revision provided that national banks were authorized to invest funds held in the capacity of managing agent in a collective investment account, 12 C.F.R. § 9.18(a)(3).<sup>1/</sup> Moreover, the proposed revised regulation allowed the Comptroller to approve collective investment of such funds in manners other than those expressly provided by Regulation 9, 12 C.F.R. § 9.18(c)(5).<sup>2/</sup>

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<sup>1/</sup> (3) In a common trust fund, maintained by the bank exclusively for the collective investment and reinvestment of monies contributed thereto by the bank in its capacity as managing agent under a managing agency agreement expressly providing that such monies are received by the bank in trust;

<sup>2/</sup> (5) In such other manner as shall be approved in writing by the Comptroller of the Currency.

The Comptroller invited national banks and other interested parties to submit comments pertaining to the proposed regulation. Plaintiff Institute, on behalf of its members, participated to the full degree permitted and submitted a statement in opposition to the proposed regulation. It premised its argument on the same basis that it is presenting before this court, namely, that the revised regulation would allegedly permit activity prohibited by 12 U.S.C. § 92(a), and certain provisions of the Glass-Steagall Act, as amended, 12 U.S.C., §§ 24, 78, 377 and 378. Notwithstanding this opposition the final regulation was adopted by the Comptroller on April 5, 1963, and revised by minor modifications on February 5, 1964, 12 C.F.R. § 9.18.

Pursuant to the regulation, on May 10, 1965, the Comptroller approved a plan submitted by First National City Bank of New York (hereinafter referred to as the Bank) for the establishment and operation of a collective investment fund, called the Commingled Investment Account, under Regulation 9, 12 C.F.R. § 9. The plan as outlined by the Bank differed from the specifically enumerated collective investment funds authorized by the Comptroller's revised Regulation, but the Bank, pursuant to 12 C.F.R. § 9.18(c)(5) sought and obtained the Comptroller's written approval of the plan.

On April 20, 1966, the Bank registered its Commingled Investment Account with the Securities and Exchange Commission pursuant to the Investment Company Act of 1940, 15 U.S.C. § 80 as an open-end management investment company. On the same date, the Bank filed a registration statement with the Securities and Exchange Commission pursuant to the Securities Act of 1933, 15 U.S.C. § 77, for the purpose of registering the participating interests or units to be issued by its Commingled Investment Account. The registration statement concerning those participating interests or units became effective on June 14, 1966. From that date the Bank has offered and sold to the public participating interests or units issued by the Commingled Investment Account by means of the prospectus for the

#### First National City's Commingled Investment Account.

Before proceeding to the merits of this controversy, it is best at this time to specifically describe the operation of a mutual fund and the operation of the Commingled Investment Account (hereinafter referred to as the Account) so that a better understanding of the problem can be achieved.

Generally, "mutual funds" are open-end management companies engaged in the business of continuously issuing and offering for sale redeemable securities which represent an undivided interest in the fund's assets. Most mutual funds are corporate in form and the securities issued by them usually consist of capital stock. However, there are a number of mutual funds in a variety of noncorporate forms and the securities issued by some of them are variously denominated as beneficial interests, participating agreements, and the like. The proceeds from the sale of the securities issued by a mutual fund are invested in a portfolio of securities of various kinds, in accordance with the stated investment policy of the particular fund. Some funds invest primarily in securities offering current income; others concentrate on long-term growth securities; still others specialize in particular industries or classes of securities; and many offer various combinations of objectives. The shareholder in a mutual fund is entitled at any time to redeem his interest, usually at net asset value, or in a few instances upon payment of a charge. To facilitate this redemption privilege as well as to establish a price at which new shares are being offered, the value of a share in a mutual fund is calculated regularly, typically twice daily, on the basis of the market value of the securities held by the fund. Because of the continuous process of redemption, the mutual fund would be restricted and contracted in size, unless it continuously issued and offered new securities for sale.

Except in unique circumstances, virtually no shares in mutual funds are traded from one investor to another, and there is



no significant trading market for such shares. In almost all cases, shareholders in mutual funds desiring to obtain cash for their shares redeem them with the issuing company. The securities issued by most mutual funds are offered to the public at a price which includes a sales commission or sales load. There are some mutual funds whose shares are sold with no sales commission being charged. These latter funds are frequently called "no load" mutual funds. The activities of mutual funds are under the control of a board of directors or board of trustees. Directors or trustees are elected annually by the vote of a majority of the fund's outstanding voting securities.

Mutual funds usually contract an outside investment adviser for investment advice and other management services, and with a principal underwriter for the distribution of the fund's shares, pursuant to the statutory pattern established by the Investment Company Act of 1940, 15 U.S.C. § 80a-15. The investment adviser of a mutual fund furnishes advice to the fund with respect to its investment portfolio and the securities it should buy, hold, and sell. In some cases the adviser is empowered to purchase and sell securities for the fund. Some investment advisers also furnish supervisory and administrative services to the mutual fund. The investment adviser receives compensation for its services, usually in the form of a fee based on the total value of the assets being managed.

The principal underwriter of a mutual fund is engaged in the business of selling and distributing the securities issued by the fund to the investing public through brokers or dealers, or directly through the underwriter's own salesmen, or both. The principal underwriter either purchases the securities issued by the fund for resale or acts as agent for the fund in distributing the securities. Except in the case of a no-load fund, the principal underwriter receives a fee for its services, usually in the form of a portion of the sales commission included in the selling price of the shares issued by the mutual fund.

Mutual funds are required to be registered with the Securities and Exchange Commission pursuant to the Investment Company Act

of 1940. The activities of the mutual funds and their relationship with affiliated persons and others are all subject to regulation under the Act. The investment advisers and principal underwriters who are plaintiffs herein, perform their services for the mutual funds they serve pursuant to contracts, the terms, execution and continuation of which are subject to the provisions of Section 15 of the Investment Company Act of 1940, 15 U.S.C. § 80a-15. The securities issued by each of the mutual fund members of the Institute are registered with the Securities and Exchange Commission pursuant to the Securities Act of 1933, 15 U.S.C. § 77. All such securities are offered to the investing public by means of a prospectus which is initially filed with the Securities and Exchange Commission under the Securities Act of 1933 as part of the registration statement for the securities to which the prospectus relates.

As can be readily ascertained, the mutual fund community is composed of three principal members. First the body corporate of the fund itself whose membership is the general investing public. This relationship is analogous to the common productive corporate structure. However, the primary function of the investment corporation is to obtain the objectives which are outlined in their charter through the mutual investment of the funds contributed by the "shareholders". Alfred Inv. Inst. v. S.E.C., 151 F.2d 254 (1st Cir. 1945) cert. denied 326 U.S. 795, 66 S.Ct. 486, 90 L.Ed. 483 (1945). The relationship between the shareholder and the body corporate is plainly one of contract. Stevanot v. Norbert, 210 F.2d 615 (9th Cir. 1954); see also Schroeter v. Bartlett Syndicate Bldg. Corp., 8 Cal.2d 12, 63 F.2d 824, 825, Ellingwood v. Wolf's Head Refining Co., 38 A.2d 743, 27 D.Ch. 356 (1944), 154 A.L.R. 406, Corporations, 18 Am. Jur.2d §463 (1965).

The management function of the mutual fund lies with the board of directors. They have essentially the equivalent powers as any corporate board of directors. In the same manner they are also responsible to their shareholders as fiduciaries. Pepper v. Litton, 308 U.S. 295, 60 S.Ct. 235, 84 L.Ed. 281 (1939), Brown v. Bullock, 194 F.Supp. 707 (S.D.N.Y. 1961) affirmed 294 F.2d 415 (2nd Cir. 1961).

The board of directors within its broad scope of authority has the power to enter into contracts with the other two members of the mutual fund community, that is the investment advisers and the underwriters. The functions performed by the latter two members of the mutual fund community is essential for the propagation of the investment or the mutual fund corporation. The interrelationship of these independent entities is one of contract which essentially determines the respective position occupied within the structure by each member. The independence of each member is governed by statute as is their interdependence; see the Investment Company Act of 1940, 15 U.S.C. § 80a-1, et seq.

The above few paragraphs outline the general operation of the mutual fund structure. A similar outline is now presented for the operation of the Account as created by the Bank and approved by the Comptroller pursuant to Regulation 9.

The Account as established by the Bank, operates as follows: the investor-customer tenders his funds, \$10,000 or more, to the Bank pursuant to a broad authorization making the Bank the customer's managing agent. There is thus created a principal-agent relationship between each individual investor-customer and the Bank. The authorization includes specific authority for the Bank to invest the customer's funds, together with the funds of other customers who have given the equivalent authorization, through the commingled Account. Funds in the commingled Account are invested in a pool of securities, principally common stocks and securities convertible into common stocks, offering the opportunity for long term growth of capital and income. The Account is divided into "units of participation" of equal value in order to determine conveniently the proportionate interest of each participant. No certificates indicating the "units of participation" are issued by the Bank; however, the participant is informed by a non-negotiable document as to how many "units of participation" are contained in his account.

A participation is transferable only to another person

who has validly appointed the Bank as managing agent, and, because of the underlying agency relationship, the interest of a participant terminates upon his death or incompetency and his funds are withdrawn from the Account and held for his legal representatives. There is no sales charge imposed on amounts invested in the commingled Account nor is there any redemption charge incurred upon withdrawal from the Account. An investor-customer may terminate his participation in whole or in part on the basis of the net asset value of the units of participation being redeemed. The net asset value of each unit of participation is determined as of the close of business of each of a number of specified valuation dates by dividing the net asset value of the Account as of the close of business on the valuation date by the number of units of participation then outstanding.

The operation of the Account is supervised by a Committee of five persons, who act essentially as a board of directors of the Account. Initially the members were appointed by the Bank, but hereafter are to be elected annually by the participants. Each participant will be entitled to vote at the election of the Committee members and his vote will be weighted according to the number of "units of participation" in his account. At least 40% of the members of the Committee must at all times be persons not affiliated with the Bank, but the majority of the members may be, and are expected to be, officers in the Bank's Trust and Investment Division.

The Committee is authorized to enter into a management agreement with the Bank. The agreement and any amendments thereto must be approved by more than 50% of the participants at their annual meeting and the Comptroller's approval thereof must also be obtained.

In accordance with the management agreement, the Bank serves as investment adviser and custodian for the Account. The Bank, therefore, maintains a continuous investment program consistent with the commingled Account's stated investment policy; it will determine what securities are to be purchased and sold, and will execute all

transactions. The management agreement provides that the Bank will furnish all administrative, custodial and clerical services required by the Account and will pay all the organization costs and expenses. Subsequent maintenance fees, the cost of independent professional services, such as legal, auditing and accounting services, and the cost of preparation and distribution of notices to participants and proxy statements are to be borne by the commingled Account. The Bank will, however, reimburse the Account for the compensation and expenses, if any, paid by the Account to the members of the Committee who are not affiliated with the Bank; the other members of the Committee will receive no separate compensation for their services to the Account. For these services the Bank receives a fee equal to 1/8th of 1 per cent of the average of the net asset value of the Account taken on each valuation date during each fiscal quarter, which is approximately 1/2 of 1 per cent on an annual basis.

Essentially, the commingled management agency Account as delineated by the Bank's plan consists of two principal members, the first being the membership of the Account consisting of the investor-customer, and the second being the Bank which occupies a dual position, one as investment adviser to the Account and the other as general agent to the participants of the Account. The Bank can also be considered to occupy the position of underwriter for the units of participation which are issued to the investor-customer. The Committee of the Account occupies a position equivalent to that occupied by the board of directors of the mutual funds.

The Account has been approved by the Comptroller, even though it does not essentially comply with all provisions of Regulation 9 as promulgated by him. This action indicates that even though the Account as presently structured does not meet every minute detail of the Regulation, any future plans similar to the one established by the Bank will obtain his approval under 12 C.F.R. § 9.18(c)(5). Therefore, it is not necessary for this court to analyze the differences between the Account as established by the Bank and Regulation 9. For the

disposition of the issues before this court, the Account will be treated as if it completely meets the substantive requirements of Regulation 9. 12 C.F.R. § 9.

Before the merits of the issues in this case can be reached, two preliminary procedural matters must be noted. The Comptroller interposes the objection that the plaintiffs lack standing to sue, and that there is no justiciable issue before this court.

These issues - standing and justiciability - are nominally termed procedural only to differentiate between the initial hurdles which a plaintiff must overcome in order to obtain a judicial determination of his action on the merits, and the actual adjudication of the case on its substantive issues. This characterization often borders on mere semantics, since in order to obtain the proper perspective and focus upon the essence of these issues, as here, the substantive law upon which the plaintiffs premise their action must also be taken into account.

Standing has been, and remains, one of the most enigmatic areas of the law. 3 Davis, Administrative Law Treatise, §22.18, at 291-92, n. 3. The courts have not developed a single formula which can be applied to a set of facts to determine whether a plaintiff has or does not have standing. The ever changing concepts which have been used in this area of the law can be readily ascertained by the many cases which have been cited in the briefs of both parties upholding their contentions. Due to the pervasiveness of definition in this area, the court is left with no alternative but to examine the long list of cases which hold that a particular plaintiff had standing on one hand, and on the other the long list of cases where the plaintiff has been denied his day in court because of the lack of standing.

Standing has been generally expressed by an indication that the alleged aggrieved party has asserted a legal right which was his to assert, or has been injured, or has been threatened with injury.

Perkins v. Lukens Steel Co., 310 U.S. 113 (1940), cf. FCC v. Sanders



Bros. Radio Station, 309 U.S. 470 (1940), Pierce v. Society of Sisters, 268 U.S. 510 (1925). But standing should not be confused with the doctrine of standing to sue which provides that in an action in a federal constitutional court, by a citizen against a government officer in his official capacity, there is no justiciable controversy unless the citizen shows that such conduct invaded or will invade a private substantive legally protected interest. Associated Ind. v. Ickes, 134 F.2d 694, 702 (2nd Cir. 1943) vacated as moot, 370 U.S. 707 (1943), but see Scott v. Macy, 121 U.S. App. D.C. 205, 349 F.2d 182 (D.C.Cir. 1965). The former standing is basically a means by which courts can accept or refuse jurisdiction, and it generally alludes to the capacity of a party to obtain judicial review of an administrative action. See U.S. v. Storer Broadcasting Co., 351 U.S. 192, 197 (1956) and Jaffe, Primary Jurisdiction, 77 Harv.L.Rev. 1037 (1964). The doctrine of standing to sue is generally directed towards the capacity of a plaintiff to present his case before a district court ab initio.

The question as to whether a plaintiff may obtain judicial relief in cases like this has been variously phrased, but the many appellations which have been devised do not detract from the underlying policy objective which permeates each of these cases. This policy is well enshrined in Article III, §2 of the United States Constitution, that is, a "constitutional" federal court cannot be given power to sit in judgment and revise administrative action, since there is no justiciable controversy and the opinion thus issued would merely be advisory. See concurring opinion of Mr. Justice Frankfurter in Anti-Fascist Committee v. McGrath, 341 U.S. 123, 149, 150 (1951), Muskrat v. U.S., 219 U.S. 346, 354 (1911), C & S Airlines v. Waterman Corp., 333 U.S. 103, 113 (1948), United Public Workers v. Mitchell, 330 U.S. 75, 89 (1947), Associated Ind. v. Ickes, supra.

Standing to challenge an administrative action can be premised on a statutory provision specifically appended to the statute under which the administrative action was promulgated or where the

provision for review has been made generally applicable by the Administrative Procedure Act, 5 U.S.C. §§ 701-704 (recodified by Pub. Law 89-554, 80 Stat. 378). Since there is no specific provision for review of the Comptroller's regulation within the terms of the enabling statute, Title 12, Section 1 et seq., the terms of the Administrative Procedure Act will apply. Citizens Nat. Bank of Maplewood v. Saxon, 249 F.Supp. 557 (D.C. Mo. 1965), affirmed 370 F.2d 381 (8th Cir. 1966). See also United Gas Pipe Line Co. v. F.P.C., 181 F.2d 796 (D.C. Cir. 1950), cert. denied 340 U.S. 827 (1950).

The pertinent section of the Administrative Procedure Act specifically provides that:

"Any person suffering legal wrong because of agency action, or adversely affected or aggrieved by action within the meaning of a relevant statute, is entitled to judicial review thereof."  
5 U.S.C. § 702.

Under this statutory provision a plaintiff must allege that he has suffered a legal wrong or that a legally protected right will be adversely affected or aggrieved by the agency's action in order to obtain standing before this court. The plaintiffs here are alleging that they are suffering a legal wrong by the allegedly illegal competition made possible by the Comptroller's regulation, thereby being adversely affected or aggrieved. The exact amount of damages which will be incurred by the plaintiffs is rather difficult to assess in precise figures, but the Comptroller has predicted that over the next five to ten years, commercial banks might capture as much as two billion dollars of mutual fund business.<sup>3/</sup> The defendant interposes that the competition, even if illegally promulgated, does not create any legal wrong for which the plaintiffs may complain.

In support of its contention that the plaintiffs are not suffering any legal wrong and thereby lack standing to challenge the

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<sup>3/</sup> Hearings on H.R. 8499, 9410 before the Commerce and Finance Subcommittee of the House Committee on Interstate and Foreign Commerce, 88 Cong. 2d Sess. p. 26 (1964). See also Comment, Of Banks and Mutual Funds: The Collective Investment Trust, 20 Sw.L.J. 334 (1965).

Comptroller's regulation, the defendant relies on a series of cases which contain the general principle that mere competitive injury made possible by governmental action does not confer standing on the injured party to restrain governmental action. Tennessee Power Co. v. TVA, 306 U.S. 118, 137 (1938), Alabama Power Co. v. Ickes, 302 U.S. 464, 479 (1937), Perkins v. Lukens Steel Co., 310 U.S. 113 (1940), Texas State AFL-CIO v. Kennedy, 330 F.2d 217, 218 (D.C. Cir. 1964), Benson v. Schofield, 336 F.2d 719 (D.C. Cir. 1965), cert. denied 352 U.S. 976, Kansas City Power & Light Co. v. McKay, 225 F.2d 924 (D.C. Cir. 1955), cert. denied 350 U.S. 854, 76 S.Ct. 137, 100 L.Ed. 780 (1955). In these cases, the plaintiffs alleged that they were suffering economic loss from the government created competition, but it is significant to note that the competition created by government action in these cases was specifically authorized and sanctioned by Congress and was based upon specific statutory grounds.

Moreover, most of the cases cited by the defendant in support of his allegation that the plaintiffs lack standing have been assiduously distinguished by subsequent decisions of the Supreme Court, even though they have not been expressly overruled. In Chicago v. Atchison, Topeka & Santa Fe Railway, 357 U.S. 77 (1958), the Supreme Court gave explicit recognition to a competitor's standing to challenge illegal competition. That case involved two competitors, one of whom (Parmelee) had alleged that the other (Transfer) was operating illegally because it had not complied with certain licensing requirements imposed by the City of Chicago. Transfer argued that Parmelee had no standing to object to Transfer's allegedly illegal competition, but this argument was flatly rejected by the Court:

"It is enough, for purposes of standing, that we have an actual controversy before us in which Parmelee has a direct and substantial personal interest in the outcome." Undoubtedly it is adversely affected by Transfer's operation, Parmelee contends that this operation is prohibited by a valid city ordinance and asserts the right to be free from unlawful competition.

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"[Transfer] argues that a party has no right to complain about unlawful competition, citing Alabama Power Co. v. Ickes, 307 U.S. 464 and Tennessee Electric Power Co. v. TVA, 306 U.S. 118. We do not regard either of these cases as controlling here. It seems to us that Transfer's argument confuses the merits of the controversy with the standing of Parmelee to litigate them.... Parmelee's standing could hardly depend on whether or not it is eventually held that Transfer can lawfully operate without a certificate of convenience and necessity." 357 U.S. 77, at 83-84.

With regard to some later cases holding that competitors had standing, see American Trucking Ass'n. v. U.S., 364 U.S. 1 (1960), National Motor Freight Ass'n. v. U.S., 371 U.S. 223, rehearing denied 372 U.S. 246 (1963), affirming 205 F.Supp. 592 (D.C.D.C. 1962) only on the merits but not as to the standing issue; Philco Corp. v. FCC, 257 F.2d 656 (D.C. Cir. 1958), cert. denied 358 U.S. 946, 79 S.Ct. 350, 3 L.Ed.2d 352 (1959), Whitney National Bank v. Bank of New Orleans & Trust Co., 323 F.2d 290 (D.C. Cir. 1963), rev'd on other grounds, 379 U.S. 411 (1965).

In two recent cases challenging the authority of the Comptroller to promulgate regulations under other sections of the banking statutes, the plaintiffs have been granted standing to challenge the regulations over the objections of the Comptroller. Since these cases are directly in point they will be discussed at length. In Baker, Watts & Co. v. Saxon, 261 F.Supp. 247 (D.C.D.C. 1966), a number of plaintiffs, engaged in underwriting and distributing revenue bonds, sought a declaratory judgment that the Comptroller's regulations authorizing commercial banks, for the first time, to enter the revenue bond business violated the Glass-Steagall Act. The Comptroller raised the standing defense, citing the identical cases as brought forth in his present argument. Judge Holtzoff summarily disposed of that contention by stating:

"The gravamen of the plaintiffs' claim for relief is that they are being subjected to competition by illegal activities of national banks. While no one may maintain a suit to restrain lawful competition merely because he is suffer-

ing an economic detriment, nevertheless, a person has a standing to complain against illegal competition, or specifically, against competition on the part of a person who lacks the legal right or power to pursue the competitive activities." 261 F.Supp. at 248.

Judge Holtzoff's opinion focuses not on the impairment of the plaintiffs' competitive position by the unlawfully created competition, but rather on the premise that but for the illegal competition condoned by the Comptroller's regulation, the plaintiffs would not have any economic detriment to base their complaint.

Likewise, in Georgia Association of Independent Insurance Agents, Inc. v. Saxon, 260 F.Supp. 802 (N.D. Geo. 1966), the district court denied a motion to dismiss for lack of standing. In that case the Comptroller had authorized, for the first time, national banks to sell insurance in towns with more than 5000 people, even though Section 92 of Title 12 of the United States Code permitted banks to act as insurance agents only in places with a population of 5000 or less. Plaintiffs were insurance agents and trade organizations representing insurance agents. Plaintiffs there alleged that the Comptroller was acting beyond his authority to issue the ruling which was in direct violation of 12 U.S.C. § 92 and that, as a result, national banks were able to illegally compete with the plaintiffs. The district court, in reaching its conclusion, observed that:

"In Tennessee Power Co., supra, and in Alabama Power Co. v. Ickes, 302 U.S. 464, 58 S.Ct. 300, 82 L.Ed. 374 (1937), the plaintiffs alleged that they were suffering economic loss from the government created competition. In both cases the Supreme Court held that such economic loss alone did not confer standing on the aspiring plaintiffs. It is important to note that such competition was authorized by Congress and was based upon statutory grounds.

"In the instant case, the competition complained of is not explicitly authorized by statute, but rather is impliedly prohibited by the congressional grant of power...." 260 F. Supp. at 803.

The district judge, in denying the Comptroller's motion to dismiss, further stated:

"The Court is of the opinion that the defendant's attack on the plaintiffs' standing is without merit. Title 12, U.S.C.A. § 92 has the effect of protecting insurance agents from certain competition. Surely, the plaintiffs have the right to their day in court to show that the protection afforded them by 12 U.S.C.A. § 92 has been violated." 760 F.Supp. at 804.

Subsequent to its finding of standing, the District Court ruled on the merits of the issues and granted the declaratory judgment and injunction which was sought by the plaintiffs. 268 F.Supp. 236 (N.D. Geo. 1957)

Defendant places great reliance in his brief on the recent case of Pennsylvania Railroad Co. v. Dillon, 335 F.2d 292 (D.C.Cir. 1964), cert. denied sub nom. American Hawaiian Steamship Co. v. Dillon, 379 U.S. 945 (1964).

In that case plaintiffs alleged not only that defendant Dillon had exceeded his statutory authority but also that the competitive activity which had been allowed was in and of itself illegal. The competing carriers challenged the authority of the Secretary of the Treasury to enroll certain vessels in the coastwise trade, allegedly in violation of the Merchant Marine Act of 1920, as amended, 46 U.S.C. § 883. That section prohibited the enrollment and documentation of vessels "jumboized" by installation of foreign-made mid-bodies. The Court of Appeals for the District of Columbia Circuit found that the carriers lacked standing even though they alleged the competition was illegal and in violation of the specific provision of the statute. The Court pointed out the dichotomy of Section 10(a) of the A.P.A., namely the "legal wrong" aspect and the "adversely affected or aggrieved" aspect, as it related to the issue of standing and it concluded that:

"Under either leg of Section 10(a), therefore, since appellants only complain of government enhanced competition, they must demonstrate 'statutory aid to standing'." 335 F.2d at 295.



After analyzing the enabling statute the Court concluded that "Congress did not intend to insulate coastwise carriers from other domestic competition or to give them any legally protected right to be free from such competition." 335 F.2d at 295.

A close analysis of the holding in the Pennsylvania Railroad, supra, case does not require a determination of the standing issue adverse to the plaintiffs. In that case the Court of Appeals found that the underlying purpose of the statute under which the regulation was promulgated was to stimulate and encourage resort to domestic shipyards and thus to ensure them sufficient business so that their facilities would be adequate at times of national emergencies. 335 F.2d 292, at 295. The statutes, under which the regulation in issue was promulgated, were enacted to establish a clear Congressional policy which sought to separate national commercial banking from the securities business.<sup>4/</sup> The primary intent of Congress was to segregate these functions and to allow separate entities to engage in these business areas. This clarity of purpose is garnered not only from the Congressional hearings reports of the Glass-Steagall Act, but also from the exactitude with which Congress has delineated the areas of common interest in this financial structure.<sup>5/</sup> This strong general policy against the invasion of either field of endeavor by either entity is sufficient to postulate an interest upon which standing to challenge the regulation may be premised, cf. American Trucking Ass'n. v. U.S. 364 U.S. 1 (1960).

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<sup>4/</sup> Hearings Pursuant to S.Res. 71 Before a Subcommittee of the Senate Committee on Banking and Currency, 71st Cong. 3rd Sess. (1931).

S.Rep. No. 77, 73d Cong. 1st Sess. (1933)

H.R.Rep. No. 742, 74th Cong. 1st Sess. (1935)

See also 75 Cong. Rec. 9909 (1932) (remarks of Senator Zulkley).

<sup>5/</sup> Note specifically amendments made to Section 24, par. Seventh of Title 12

Therefore, by implication, the plaintiffs here have a right to complain of the competition which is being condoned under the Regulation. This competition is illegal in the sense that Congress has indicated its policy of separating the two financial institutions and this Regulation allows in an indirect manner a joinder of these interests. The plaintiffs were the recipients by implication of Congressional protection.

Even if this invasion would not in fact cause a palpable injury <sup>6/</sup> to be inflicted upon the plaintiffs which could be termed to be a legal wrong under the first leg of Section 10(a) of the A.P.A., now 5 U.S.C. § 702, the plaintiffs could have standing to represent the public interest as held in Sanders Bros. Radio Station v. F.C.C., 309 U.S. 470 (1940), Scripps-Howard Radio, Inc. v. F.P.C., 316 U.S. 4 (1942), and F.C.C. v. N.B.C. (K.O.A.), 319 U.S. 239, 63 S.Ct. 1035, 87 L.Ed. 1374 (1943). See the application of this doctrine by Judge Frank in Associated Industries v. Ickes, 134 F.2d 694 (2nd Cir. 1943), vacated as moot 370 U.S. 707 (1943).

The practical effect of the doctrine advanced by those series of cases grants standing to challenge the legality of administrative action to one who is in fact adversely affected by administrative action. Standing in those instances is predicated upon the theory that the plaintiffs do not represent their own private property interests but rather the interests of the public. In the instant situation the plaintiffs could be classified as private "Attorneys General" based on the premise that the public policy dictated by Congress in the Glass-Steagall Act is not being adhered to by the agency charged with its enforcement. See Philco Corp. v. FCC, 103 U.S.App. D.C. 278, 257 F.2d 650 (1958), cert. denied 358 U.S. 946, 76 S.Ct. 350, 3 L.Ed. 352 (1959), where the competitive interest of a manufacturer and not a broadcaster was held sufficient to satisfy the "person aggrieved"

6/ Barran Book v. Sullivan, 372 U.S. 58, 83 S.Ct. 631, 9 L. Ed. 2d 584 (1963) - see also the discussion of the "Adversely Affected in Fact" doctrine promulgated by Prof. Davis, 3 Davis, Administrative Law Treatise § 22.02 (1965 Supp.)

provision of the Federal Communications Act. See also Jaffe, Standing to Secure Judicial Review: Public Actions and Private Actions, 74 Harv. L.Rev. 1265 (1961), 75 Harv.L.Rev. 255 (1961), and Davis, 3 Administrative Law Treatise §§ 22.04, 22.05, 22.11 (1958), (Supp. 1965).

Finally, a denial of standing, as urged by the defendant, would leave the plaintiffs and all others similarly situated without a right to seek redress against capricious, arbitrary and unwarranted Regulations issued by the Comptroller, however flagrant and contrary to the intent of Congress. This court, therefore, holds that the plaintiffs have standing to challenge the Comptroller's Regulation 9.

The Comptroller also asserts that there is no justiciable issue or controversy present in this case. This assertion is bifurcated on two grounds. The first is apparently premised upon the theory that the Comptroller's regulation permitting national commercial banks to establish the commingled Account does not regulate nor does it impose any obligation or duty upon the plaintiffs. The standards of justiciability are not limited to those situations in which the plaintiffs are directly regulated by the defendant government official. Indeed, in none of the branch bank cases in which the plaintiff was a state bank did the challenged regulations impose a duty upon or regulate the plaintiffs in any manner. e.g. First Hardin National Bank v. Fort Knox National Bank, 361 F.2d 276 (6th Cir. 1966), First National Bank of Smithfield v. Saxon, 352 F.2d 267 (4th Cir. 1965), Union Savings Bank of Patchogue v. Saxon, 128 U.S.App.D.C. 296, 335 F.2d 718 (D.C. Cir. 1964), Whitney National Bank v. Bank of New Orleans & Trust Co., 323 F.2d 290 (D.C. Cir. 1963), rev'd on other grounds 379 U.S. 411 (1965), Commercial Security Bank v. Saxon, 236 F.Supp. 457 (D.C.D.C. 1964), affirmed 343 F.2d 758 (D.C. Cir. 1965). However, the justiciability assertion made by the Comptroller in each of these cases was decided adversely to the Comptroller.

The district court in Baker, Watts & Co. v. Saxon, supra, summarily rejected the Comptroller's contention, stating that:

".... a justiciable controversy obviously exists justifying the court in entertaining an action for a declaratory judgment. The plaintiffs claim that the defendant is authorizing national banks to conduct certain activities in violation of the law and that these activities transgress the powers of the banks and that they are injurious to the plaintiffs." 261 F.Supp. at 749.

The second ground for the lack of justiciability is premised on the theory that only the Comptroller can challenge the acts of a national commercial bank when it acts in excess of its powers. However, the primary thrust of the plaintiffs' allegation is directed not at the national bank which is acting under authority granted by the Comptroller, but rather at the scope of the authority under which the Comptroller promulgated the regulation in issue. The district court in Georgia Association of Independent Insurance Agents, Inc. v. Saxon, supra, simultaneous with its denial of the motion to dismiss for lack of standing, rejected the Comptroller's assertions on the issue of justiciability. It unequivocally stated that:

"The defendant further contends that ... the Comptroller is sole enforcer of the National Banking Act. This contention is impliedly repudiated by the repeated decisions that banks have standing to challenge an allegedly illegal order ... and was explicitly repudiated in an opinion by the Fifth Circuit Court of Appeals which stated: 'The fact that the Comptroller is charged under 12 U.S.C. § 93 with the duty of enforcing the National Banking Act certainly does not have the effect of prohibiting actions to enforce the law by any other party who might have a legitimate interest. Jackson v. First National Bank of Valdosta, 349 F.2d 71 (1965) at p. 75.'" 260 F.Supp. at 804.

A recent Supreme Court decision inferentially rejects the Comptroller's arguments on the lack of justiciability, Abbott Laboratories v. Gardner, 387 U.S. 136 (1967). The Supreme Court reversed and remanded to the Court of Appeals for the Third Circuit so that the Court of Appeals could consider the issues on the merits. The Court of Appeals had reversed the district court's decision without reaching the merits of the case, 352 F.2d 256 (3rd Cir. 1965). The district court had found that "a justiciable controversy arises

where a plaintiff is confronted with substantial present or imminent harm ... the very presence of a threat of harm makes the regulations ready for review." 228 F.Supp. 855, 861 (D.C. Del. 1964). The Court of Appeals reversed on the basis that no "actual case or controversy" existed as required for justiciability under the Declaratory Judgment Act. However, the Supreme Court decreed that "the impact of the regulations upon the plaintiff is sufficiently direct and immediate so as to render the issue appropriate for judicial review at this stage." 387 U.S. at 152.

Having found that the plaintiffs have standing to seek redress and that they have presented a justiciable issue, we are now ready to seek a resolution of the subject matter involved in this litigation.

The principal issue involved in this controversy is whether or not the Comptroller has the statutory authority to empower national commercial banks to create, organize and manage the commingled Account. The gist of the activity of managing the Account consists of the purchase and sale of equity securities, nominally for long-term growth of capital and income, for the participating members. National banks have only such powers as are expressly given by federal statute or by necessary implication therefrom, 12 U.S.C. § 24. Houston v. Drake, 97 F.2d 863 (9th Cir. 1938), Baltimore & O. R. Co., et al., v. Smith, 56 F.2d 799 (3rd Cir. 1932), and in some trust activities they may be authorized to act by the Comptroller in any capacity in which competing state banks are permitted to act. 12 U.S.C. 92a(n). See First National Bank in St. Louis v. Missouri, 263 U.S. 640 (1923), and Mercantile National Bank v. Langbeau, 371 U.S. 55 (1967), City of Yonkers v. Downey, 309 U.S. 590 (1940), 60 S.Ct. 796, 84 L.Ed. 964, rehearing denied 60 S.Ct. 1071, 310 U.S. 656, 84 L.Ed. 1420, and Condon v. Downey, 310 U.S. 656, 60 S.Ct. 1071, 84 L.Ed. 1420, U.S. v. Palmer, 28 F.Supp. 936 (D.C.N.Y. 1939).

Authority to oversee trust activities of national banks which was vested in the Federal Reserve Board of Governors, 12 U.S.C.

§ 248(k) was repealed in 1962 when authority to regulate the fiduciary activities of national banks was transferred to the Comptroller. 12 U.S.C. § 92a, 76 Stat. 668, Pub.L. 87-772. Upon transfer of this authority the Comptroller issued Regulation 9 pursuant to which the First National City Bank established the commingled Account. In order to determine the validity of Regulation 9, it will be necessary to investigate each section of the relevant statutes and also to determine the intent of Congress when it enacted the relevant statutes. In order to complete the determination of the issues involved, it will also be necessary to determine whether or not the relevant state statute, here the N. Y. Banking Law Section 100, allows local state banks to act in a similar fashion as is presently being allowed by Regulation 9.

This Regulation authorizes national banks to commingle managing agent accounts, allowing, therefore, the bank to purchase equity securities for the Account in general and not for any specific participating member. The essence of this activity is the purchase and sale of securities deriving thereby a benefit for the participating members, and fulfilling the stated purpose of the Account.

The first statutory provision which is encountered along the logical progression to our conclusion is 12 U.S.C. § 92a which delineates the trust powers which the Comptroller is authorized to grant to the national banks. Section 92a(a) provides:

"The Comptroller of the Currency shall be authorized and empowered to grant by special permit to national banks applying therefor, when not in contravention of State or local law, the right to act as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State in which the national bank is located."

and under 12 U.S.C. § 92a(j) the Comptroller: <sup>2/</sup>

<sup>2/</sup> Section 11(k) of the Federal Reserve Act, as amended, 12 U.S.C. § 248(k) (repealed), empowered, in identical terms the Federal Reserve Board to issue regulations.



"... is authorized and empowered to promulgate such regulations as he may deem necessary to enforce compliance with the provisions of this section and the proper exercise of the powers granted therein." 76 Stat. 668, Pub. L. 87-722 § 1.

Pursuant to this statutory authority the Comptroller can empower national banks the right to act in a fiduciary capacity and to issue regulations controlling this activity. From the statutory language it can be concluded that the Comptroller can grant trust powers to the national banks; but the real crux of this issue is whether or not the commingled Account can be considered a fiduciary activity as provided by the statute.

The Comptroller contends that there can be no doubt that the Bank's relationship to the participants in the commingled Account is a fiduciary relationship; however, this general statement, upon close analysis, is untenable. The principal-agent relationship arises from a contractual agreement between the parties. The nature of this relationship gives rise to certain duties which are implied by the law, namely, a fiduciary duty and a duty of loyalty. The trustee and the agent have an equivalent duty of loyalty. The fiduciary duty of the agent is similar to but not the equivalent of the fiduciary duty of a trustee.

50? The many differences as to the characteristics of a principal-agent relationship and a trustee relationship are notable especially as they relate to the issue in this case. Consent of both principal and agent is a necessary requirement for the creation of the relation whereas the beneficiary of a trust need not consent. An agent is subject to the control of his principal, but a trustee is not subject to the control of the beneficiary. An agent can bind his principal by contract or otherwise, but a trustee has no such power with regard to his beneficiary. The agency relationship is terminable by the direction of the principal or by his death without any express provision to that effect, but this is untrue with respect to a trust unless the instrument so provides. See Restatement (Second) of Agency, Section 13, comment g; Section 14B, comments g to h, and Sec-

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tion 475, comment a. Note also Bogert, Trusts and Trustees, § 15 (2d.ed. 1965) p. 70 and Restatement of Trusts, 2d § 8, comment i.

The Bank and the individual participant of the Account enter into an agency relationship prior to or simultaneous with the participant's engagement with the Account. The Bank's role in this relationship is one of managing agent, not as trustee for the participant. A leading authority on the law of trusts has stated:

"The duties and powers of the institution [e.g. a bank] as agent are determined by the terms of the contract made with the customer; the duties and powers of the institution as trustee depend not only upon the terms of the trust but also upon the principles and rules of the common law and of statutes which are applicable to the trust relation. The liabilities of the institution as agent depend upon whether it has failed to use due care in the performance of the duties which it undertakes; its liabilities as a trustee depend upon whether it has committed a breach of trust. Ordinarily the responsibilities of the institution are more extensive where it acts as trustee than where it acts as agent, and it may incur no liabilities as agent for conduct which would render it liable if it were trustee." 1 Scott on Trusts, Section 8.1 Bank as Trustee or Agent (2d.ed.1956).

The courts, as well as the recognized authorities in trust law, have distinguished sharply between the responsibilities of a true trustee and those of a managing agent, even where the latter is granted complete discretion in acting for his principal. It is, of course, established that the managing agent occupies a position of confidence, in which he must act with reasonable care and is held to a standard of conduct higher than that which prevails in the ordinary course of business in the marketplace. But the courts have stated plainly that this is not the high standard of care and strict accounting imposed upon a trustee, Stephens v. Detroit Trust Co., 284 Mich. 149, 278 N.W. 799 (1933), Anderson v. Abbott, 61 F.Supp. 888 (W.D. Ky. 1945), O'Connor v. Burns, Potter & Co., 151 Neb. 9, 36 N.W.2d 507 (1949). In both the Stephens and O'Connor cases the principal brought suit for accounting against the defendant managing agent on the basis that they had breached

the high duty of care imposed upon a trustee. The decisive factor in both cases was that the relationship which existed between the parties had been freely chosen and established and, having entered into an agency contract, the investor could not assert that the relationship was in fact a trust.<sup>8/</sup>

Contrary to the contentions made by the Comptroller, the managing agent relationship is not a true fiduciary relationship as it has been defined by the courts and by the recognized authorities in this field. Therefore, it is concluded that the managing agency relationship does not fall within the traditional fiduciary powers as delineated in 12 U.S.C. § 92a(n).

Section 12 U.S.C. § 92a(a), however, permits a national bank to act "in any other fiduciary capacity in which state banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the state in which the national bank is located." This saving provision allows national banks to offer the equivalent fiduciary services to their customers that a local state bank might offer.

The Comptroller has authorized the First National City Bank, located in New York state, to establish a commingled Account pursuant to Regulation 9, and under the competitive provision of 12 U.S.C. § 92a(a) the authorization granted to First National City Bank may be legally valid, if the banking laws of New York state allow competing institutions to establish a commingled Account.

The general powers of state banks in New York state are contained in McKinney's Consol. L. N. Y. Banking Law § 96 as amended, L.1966, c. 324. These general powers have been supplemented by specific statutory provisions which grant state banks the power to act in a fiduciary capacity, N. Y. Banking Law §§ 100, 100-a, 100-b, 100-c, as amended. Each of these statutory provisions delineate the authoriza-

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<sup>8/</sup> But see, Saxon and Miller, Common Trust Funds, 53 Geo. L.J. 994, 1015, and Main, Common Trust Funds, 83 Banking L.J. 565.

tion of state banks with a definite degree of specificity, and none of the sections noted above allow a commingling of managing agency accounts. The only section which could even be deemed to inferentially grant this authority is Section 100-c, which relates to the power of banks to commingle funds held in a fiduciary capacity, specifically requiring that common trust funds be limited to moneys received and held "as executor, administrator, guardian, personal or testamentary trustee, donee of a power during minority to manage property vested in an infant or committee...."

A search of the New York state case law has failed to reveal any relevant judicial interpretation of this statutory section. However, it has been held that state banks are prohibited to exercise any power which was not expressly granted, O'Connor v. Bankers Trust Co., 159 Misc. 920, 289 NYS 252 (Sup.Ct. 1936) affirmed 278 NY 649, 16 NE 2d 302; see also Nassau Bank v. Jones, 95 NY 115, 47 Am.Rep. 14, (Ct. of App. 1884). These decisions indicate that New York state courts follow the federal rule, applicable to national banks, as expressed in Calif. Bank v. Kennedy, 167 U.S. 362, 17 S.Ct. 831, 42 L.Ed. 198 (1897), that the exercise of power not expressly granted to a national bank is prohibited. This restrictive interpretation of the powers granted under Section 100-c is further substantiated by noting that when the New York legislature has wanted to broaden the categories of accounts held and administered by banks which could be invested in a common trust fund, it has amended Section 100-c to do so.<sup>9/</sup>

It is the conclusion of this court that the commingling of managing agency accounts is not authorized either under the federal statutes or the New York banking laws.

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<sup>9/</sup> For example, that section was amended to permit a state bank acting as the "donee of a power during minority to manage property vested in the infant" to place the property so managed in a common trust fund, L. 1935, c. 496 § 1; L. 1965, c. 824 § 5. Note also the specific accounting and notice provisions which are contained in Section 100-c as strictly construed by the courts in In re Lincoln Rochester Trust Co., 201 Misc. 1008, 111 NYS 2d 45 (1953). See also New York Banking Board Regulation, 3 N.Y.C.R.R. 11.91 which states that a common trust fund "may be operated only for true fiduciary purposes."



Even if the managing agency accounts could be considered bona fide fiduciary activities, and, therefore, authorized by the present statutes, the commingling of these accounts would still be illegal under the provisions of the Glass-Steagall Act. In order to arrive at this determination it is necessary to make an exact characterization of the Account which was established.

As noted in the early section of this decision, a mutual fund continuously issues its own securities as does the commingled Account. A mutual fund invests the proceeds from the sale of its securities in a diversified investment portfolio, in the same manner as the commingled Account. The mutual fund shares obtains for the investor an undivided interest in the fund's portfolio, as does a unit of participation in the commingled Account. Within certain limitations, a participating member of the Account can redeem his units of participation in a similar manner as the holder of mutual fund shares. A majority of the participating members elect the members of the Committee, who oversee the affairs of the Account in much the same manner as mutual fund stockholders elect their board of directors or trustees. The SEC has required the Account to register as an investment company under the Investment Company Act of 1940, 15 U.S.C. § 80. The SEC pursuant to its authority under 15 U.S.C. § 80.3(c), has granted certain exemptions to the requirements of the Investment Company Act as it relates to board membership;<sup>10/</sup> nevertheless it has recognized the similarity between the Account and an investment company.<sup>11/</sup> The Bank and the

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<sup>10/</sup> The exemptions which were granted are being challenged in the Court of Appeals for the District of Columbia Circuit, National Association of Securities Dealers, Inc. v. Security Exchange Commission, Appeal No. 20,164.

<sup>11/</sup> The similarity between mutual funds and the Account have been noted by many authorities in the financial community, see Hearings on S. 2704 on Collective Investment Funds Before the Subcommittee on Financial Institutions of the Senate Committee on Banking and Currency, 89th Cong. 2d Sess. (1966); University of Pennsylvania Law School Conference on Mutual Funds, 115 U.Pa.L.Rev. 669; and Comment, Of Banks and Mutual Funds, 70 Sw.L.J.

Committee have entered into a contractual agreement under which the Bank performs managing and advising functions for the Account. This contract is the equivalent of the contracts which are entered into by the mutual funds and their investment advisers. These contracts are subject to and must be submitted for review by the SEC under the provisions of the Investment Company Act. There are some differences <sup>12/</sup> between a mutual fund and a commingled Account, but these are not substantially sufficient to create a legal differentiation between the two investment vehicles. The similarities between these related activities are a sufficient basis to draw an analogy from which an equivalency can be premised.

The Comptroller attempts to differentiate between the mutual fund investment vehicle and the commingled Account by attempting to establish a major difference between a mutual fund share and a unit of participation. This differentiation is premised on the basis that the unit of participation is not a security as such. This is mere tautology and a matter of semantics.

The United States Supreme Court has noted that for the purposes of the Securities Act of 1933 the test for a security is whether the scheme involves an investment of money in a common enterprise with profits to come solely from the efforts of others. SEC v. Howey, Co., 328 U.S. 293, 301 (1946). See also S.E.C. v. Variable Annuity Life Ins. Co., 359 U.S. 65 (1959) and Prudential Insurance Co. of America v. S.E.C., 376 F.2d 323 (3rd Cir. 1964), cert. denied 377 U.S. 953 (1964). Under this all encompassing definition, in its most comprehensive sense, whenever an investor relinquishes control over his funds and submits their control to another for the purpose and hopeful expectation of deriving profits therefrom he is in fact investing his funds in a security. The unit of participation in the commingled Account is in fact a security and has been so recognized by the SEC by its require-

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<sup>12/</sup> See Hearings on S. 2704 (1966) <sup>supra</sup>, at p. 55 and 56

ment that the Bank register the units of participation under the Securities Act of 1933.

The Comptroller argues, however, that the definition of "securities" for the purpose of the Securities Act of 1933 is not applicable to define "securities" as the term is used in the Glass-Steagall Act. He asserts that this definition as judicially and administratively derived has no relevance to the meaning of the various provisions of the national banking laws. He bases this assertion on the allegedly different purposes which the laws have, namely that the securities laws were enacted to protect the interests of investors while the banking laws were enacted to protect the country's credit and currency and the solvency of the national banks. This differentiation fails to focus upon the primary essence of the complete regulatory scheme which the Congress enacted to mitigate the problems that the country faced in the 1930s. Congress, after extensive investigation, realized that the financial community needed stabilization in order to overcome the debacle which arose in 1929 and to prevent any further recurrences. It would be inconsistent to conclude that Congress did not intend to obtain the equivalent meaning for the term "securities" as used in the Securities Act of 1933 when it used the term in the Glass-Steagall Act which was enacted by the same Congress.

By finding that the Account is an equivalent investment vehicle to a mutual fund and that the units of participation are in fact securities, it is, therefore, necessary to determine whether or

13/ The Federal Reserve Board has repeatedly ruled that participations or shares in mutual funds are securities for purposes of the Glass-Steagall Act, and it has similarly characterized the units of participation in the bank sponsored commingled managing agency account, Federal Reserve Board Legal Memorandum, "Legal Considerations Under Section 32 of the Banking Act of 1933 in Connection With the Proposed Commingled Investment Account of First National City Bank of New York" (Dec. 15, 1965) reprinted in Hearings on S. 2734 (1966) at 581-588.

not the Bank is barred from these activities by the provisions of the Glass-Steagall Act, Sections 16, 20, 21 and 32, codified in 12 U.S.C. §§ 24, 377, 378 and 78 respectively.

The first relevant section is 12 U.S.C. § 24 dealing with the explicit powers granted to the national banks by the Congress. For our analysis only paragraph Seventh is pertinent. It states:

"To exercise by its board of directors or duly authorized officers or agents, subject to law, all such incidental powers as shall be necessary to carry on the business of banking; by discounting and negotiating promissory notes, drafts, bills of exchange, and other evidences of debt; by receiving deposits; by buying and selling exchange, coin, and bullion; by loaning money on personal security; and by obtaining, issuing, and circulating notes according to the provisions of this chapter. The business of dealing in securities and stock by the association shall be limited to purchasing and selling such securities and stock without recourse, solely upon the order, and for the account of, customers, and in no case for its own account, and the association shall not underwrite any issue of securities of stock: Provided, That the association may purchase for its own account investment securities under such limitations and restrictions as the Comptroller of the Currency may by regulation prescribe...."

The power of national banks to deal in securities has had a motley history, both legislatively and judicially. In 1823 the Supreme Court held that a prohibition against a national bank's trading and dealing in stocks was nothing more than a prohibition against engaging in the ordinary business of buying and selling stocks for a profit and it did not include purchases resulting from ordinary banking transactions. Fleckner v. Bank of the United States, 8 Wheat. 351, 21 U.S. 351 (1823). In First National Bank v. Nat. Exchange Bank, 92 U.S. 122 (1875), the Supreme Court stated that "Dealing in stocks is not expressly prohibited; but such a prohibition is implied from the failure to grant the power." 92 U.S. at 122. The Court in the First National Bank case was interpreting, Rev. Stat. § 5136, par. 7, 15; 15 Stat. 101 § 8, the forerunner of 12 U.S.C. § 24, par. 7 which delineated the powers of the national banks.

The limitation on the national bank's power in security dealings was reiterated in subsequent decisions of the Supreme Court. Concord First National v. Hawkins, 174 U.S. 371 (1896), California Bank v. Kennedy, 157 U.S. 362 (1897), McCormick v. Market National Bank, 165 U.S. 538 (1896); see also Birdsell Mfg. Co. v. Anderson, 20 F.Supp. 571 (W.D. Ky. 1937) affirmed 104 F.2d 340 (6th Cir. 1939), and Nichelsen v. Penney, 135 F.2d 409, 424 (2nd Cir. 1943).

This implied limitation caused the national banks to establish security affiliates, organized under state law, to profit from underwriting and dealing in stocks and other securities. In 1927 Congress passed the McFadden Act which added to the list of banking powers in paragraph Seventh of Section 5136 of the Revised Statutes the following proviso:

"Provided, that the business of buying and selling investment securities shall hereafter be limited to buying and selling without recourse marketable obligations evidencing indebtedness of any person, copartnership, association, or corporation, in the form of bonds, notes and/or debentures, commonly known as investment securities, under such further definition of the term 'investment securities' as may by regulation be prescribed by the Comptroller of the Currency.... [Act of February 25, 1927 (McFadden Act), Section 2(b), 44 Stat. 1226]"

This proviso was intended to be a confirmation and a regulation of the investment security business which was being conducted by the banks through their security affiliates. H.R. Rep. No. 83, 69th Cong. 1st Sess. (1926). By the provisions of this Act, the national banks were authorized by statute to engage in the business of underwriting and dealing in investment securities.

The storms looming on the horizon were not within the contemplation of very many people in 1927. It was not until 1931 when the Congress, graced with hindsight, sought the primary causes of the debacle which enveloped the country and had its repercussions throughout the world. The Congressional inquiry generated various statutes in an attempt to avoid a repetition of the debacle which had transpired. Among these statutes were the Glass-Steagall Act and the

Securities Act of 1933.

The Glass-Steagall Act in particular redefined the powers of the national banks and imposed severe limitations on their activity in the investment security business by amending 12 U.S.C. § 24, P. 7, and adding 12 U.S.C. §§ 78, 377 and 378. Section 24, paragraph Seventh, has been noted above. The other relevant sections are noted below.

Section 32 of the Glass-Steagall Act, now 12 U.S.C. § 78, provides:

"No officer, director, or employee of any corporation or unincorporated association, no partner or employee of any partnership, and no individual, primarily engaged in the issue, flotation, underwriting, public sale, or distribution, at wholesale or retail, or through syndicate participation, of stocks, bonds, or other similar securities, shall serve the same time as an officer, director, or employee of any member bank except in limited classes of cases in which the Board of Governors of the Federal Reserve System may allow such service by general regulations when in the judgment of the said Board it would not unduly influence the investment policies of such member bank or the advice it gives its customers regarding investments."

Section 20 of the Glass-Steagall Act, now 12 U.S.C. § 377, provides:

"After one year from June 16, 1933, no member bank shall be affiliated in any manner described in subsection (b) of section 221a of this title with any corporation, association, business trust, or other similar organization engaged principally in the issue, flotation, underwriting, public sale, or distribution at wholesale or retail or through syndicate participation of stocks, bonds, debentures, notes, or other securities; Provided, That nothing in this paragraph shall apply to any such organization which shall have been placed in formal liquidation and which shall transact no business except such as may be incidental to the liquidation of its affairs.

"For every violation of this section the member bank involved shall be subject to a penalty not exceeding \$1,000 per day for each day during which such violation continues. Such penalty may be assessed by the Board of Governors of the Federal Reserve System, in its discretion, and, when so assessed, may be collected by the Federal reserve bank by suit or otherwise.

"If any such violation shall continue for six calendar months after the member bank shall have been warned by the Board of Governors of the Federal Reserve System to



discontinue the same, (a) in the case of a national bank, all the rights, privileges, and franchises granted to it under the National Bank Act, may be forfeited in the manner prescribed in sections 141, 222-225, 261-263, 285, 286, 501a, and 502 of this title, or, (b) in the case of a State member bank, all of its rights and privileges of membership in the Federal Reserve System may be forfeited in the manner prescribed in sections 321-329 and 330-338 of this title."

Section 21 of the Glass-Steagall Act, now 12 U.S.C. § 378, provides:

"(a) After the expiration of one year after June 16, 1933, it shall be unlawful--

"(1) For any person, firm, corporation, association, business trust, or other similar organization, engaged in the business of issuing, underwriting, selling, or distributing, at wholesale or retail, or through syndicate participation, stocks, bonds, debentures, notes, or other securities, to engage at the same time to any extent whatever in the business of receiving deposits subject to check or to repayment upon presentation of a passbook, certificate of deposit, or other evidence of debt, or upon request of the depositor: Provided, That the provisions of this paragraph shall not prohibit national banks or State banks or trust companies (whether or not members of the Federal Reserve System) or other financial institutions or private bankers from dealing in, underwriting, purchasing, and selling investment securities to the extent permitted to national banking associations by the provisions of section 24 of this title: Provided further, That nothing in this paragraph shall be construed as affecting in any way such right as any bank, banking association, savings bank, trust company, or other banking institution, may otherwise possess to sell, without recourse or agreement to repurchase, obligations evidencing loans on real estate;

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"(b) Whoever shall willfully violate any of the provisions of this section shall upon conviction be fined not more than \$5,000 or imprisoned not more than five years, or both, and any officer, director, employee, or agent of any person, firm, corporation, association, business trust, or other similar organization who knowingly participates in any such violation shall be punished by a like fine or imprisonment or both."

The obvious purpose of these legislative enactments was to divorce the banking business from the security investing business. Congress was so emphatic in promulgating this divorce, that it included a criminal provision to assure the efficacy and continuity of the separation; see 12 U.S.C. § 372(b), supra, and in some instances it imposed money penalties and forfeitures; see 12 U.S.C. § 377, supra. The many pages of legislative hearings reports which preceded the final enactment of the Glass-Steagall Act contain and outline the potential dangers which the involvement of commercial banking in the investment security business created.

These potential dangers were noted by the Comptroller of the Currency in his report of 1920, excerpts of which were cited by the Subcommittee of the Senate conducting the investigation:

"Some 'securities companies' operating in close connection with, and often officered by, the same men who manage the national banks with which they are allied, have become instruments of speculation and headquarters for promotions of all kinds of financial schemes. Many of the flotations promoted by the 'securities corporations' which are operated as adjuncts to national banks have proven disastrous to their subscribers, and have in some instances reflected seriously not only upon the credit and the standing of the 'securities companies' by which they are sponsored, but also in some cases have damaged the credit and reputation of national banks with which the 'securities companies' are allied.

"It has been established clearly by decisions of the United States Supreme Court that a national bank can not, except as authorized by the Federal reserve act, hold the stock of other national banks or the stock of other corporations; but these adjunct or auxiliary companies whose stockholders are identical with the stockholders of the national banks with which they are connected by various ties and devices frequently deal actively in stocks, and they also sometimes acquire the ownership or control of other banks, National and State, through their stock purchases.

"In times of rising prices and active speculation some of these auxiliary corporations have made large profits through their ventures and syndicate operations, but their

losses in other periods have been heavy, and they have become an element of increasing peril to the banks with which they are associated. The business of legitimate banking is entirely separate and distinct from the kind of business conducted by many of the 'securities corporations', and it would be difficult, if not impossible, for the same set of officers to conduct safely, soundly, and successfully the conservative business of the national bank and at the same time direct and manage the speculative ventures and promotions of the ancillary institutions. These varying institutions demand a different kind of ability and experience on the part of those who manage them, and the two types of business when combined with one management are likely to be operated to the advantage of neither.

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"These ancillary companies are being used with increasing frequency for promotion of speculation and for dealing in bonds and stocks, often those of new and unseasoned issues, and which are attended with improper hazard risk, and as a means of enabling banks to do, indirectly through their instrumentality, things which they can neither safely nor lawfully do directly." [See Hearings Pursuant to S. Res. 71 Before a Subcommittee of the Senate Committee on Banking and Currency, 71st Cong. 3d Sess. pp. 1067-1068 (1931)]

The Senate Subcommittee Report also outlined the organization and functions of the security affiliates. Among one of these functions was the operation of investment trusts which bought and sold securities purely for investment or speculative purposes, Hearings, S. Res. 71, p. 1057. These investment trusts were the equivalent of <sup>14/</sup>our present day investment companies.

Another drawback which the Subcommittee Report recognized was that "in the case of a trust company or a bank with a trust department, the possession of a security affiliate may adversely affect the independence with which fiduciary activities are exercised." Hearings, S. Res. 71, p. 1064.

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<sup>14/</sup> S.E.C. Report on the Public Policy Implications of Investment Company Growth, H.R. Rep. No. 2337, 85th Cong. 2nd Sess. p. 33, Pt. 3 (1956)

There can be little doubt as to what Congress intended to do by the enactment of the Glass-Steagall provisions outlined above. Section 16, 12 U.S.C. § 24, par. 7 prohibits national banks from not only underwriting securities directly but also limits the capacity of the national banks in the purchase and sale of securities. Avotin v. Atlas Exchange Bank, 295 U.S. 209 (1935); cf. U.S. v. Philadelphia National Bank, 374 U.S. 231, 329 (1963), First Natl. Bank v. Missouri, 263 U.S. 640 (1923), Genessee Trustee Corp. v. Smith, 102 F.2d 125, 127 (6th Cir. 1939), Guaranty Trust Co. v. U.S., 44 F.Supp. 417, (E.D. Wash. 1942), affirmed 139 F.2d 69 (9th Cir. 1943), U.S. v. Palmer, 28 F.Supp. 936 (S.D.N.Y. 1939). Section 20, 12 U.S.C. § 377 effectively provides that national banks may not be affiliated with an entity which is engaged principally in the business of purchasing, selling, or underwriting securities. Section 21, 12 U.S.C. § 378 specifically provides that it is unlawful for any entity which is engaged in the business of purchasing, selling, or underwriting to also be engaged in the banking business. Section 32, 12 U.S.C. § 78 prohibits banks and investment organizations from having interlocking directorates, and common officials and employees. Through this legislative scheme Congress intended to separate these previously integrated activities, and it made its intent explicitly clear. Merchants National Bank v. Commissioner of Internal Revenue, 199 F.2d 657 (5th Cir. 1952), Commissioner of Internal Revenue v. Merchants Nat. Bldg. Co., 131 F.2d 741 (5th Cir. 1942), cf. Paramount Pictures v. Langer, 23 F.Supp. 890, 902 (D. N.D. 1938), reversed as moot 306 U.S. 619 (1938), Morgan Stanley Co. v. S.E.C., 126 F.2d 325, 329 (2nd Cir. 1942).

The Supreme Court has stated with specific relation to Section 32, 12 U.S.C. § 78, that "It [Section 32] is a preventive or prophylactic measure. The fact that respondents have been scrupulous in their relationship to the bank is therefore immaterial," Board of Governors v. Agran, 329 U.S. 441, 449 (1946), see also U.S. v. Brown, 381 U.S. 437, 454 (1965). This "prophylactic" aspect of Section 32 is also inherent in Sections 20 and 21. "This is effective legislation against temptation," National Maritime Union of America v. Heron,

78 F.Supp. 146, 171 (D.C.D.C. 1948) affirmed 334 U.S. 354 (1948), and it should not be derogated except by the Congress.

The Comptroller contends that the Account has been passed upon and approved by the Federal Reserve Board of Governors as far as its establishment would be contrary to the provisions of Section 32, 12 U.S.C. § 78.<sup>15/</sup> In order to support its conclusion the Board promulgated a "single entity" theory, that is, that the Bank and the Account would constitute a single entity for the purposes of Section 32, since the Account would be regarded as nothing more than an arm or department of the Bank. This proposition seems to be based more on nuances of language than on the factual ascertainment of the relationship of the Account with the Bank. The Account is to be governed by an independent board of directors, the Committee, with full policy making authority. The Committee is elected by a majority of the units of participation in the Account and is responsible only to the investor-participants in the Account and not to the Bank. The Bank serves as investment adviser to the Account and also provides administrative services. It performs these services pursuant to a contract which conforms to the requirements of Section 15 of the Investment Company Act, 15 U.S.C. § 80a-15. The contract is terminable at any time, by either party, with sixty days notice and may be continued only upon annual approval of the investor-participants or of a majority of the Committee, including a majority of the members of the Committee not affiliated with the Bank. The contract will also terminate automatically if assigned by the Bank. When all these factors are taken into consideration, it is obvious that the Bank is contractually affiliated with the Account and cannot, therefore, be considered a department of the bank.<sup>16/</sup>

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<sup>15/</sup> Hearings, S. 2704 (1966) p. 580-588, supra.

<sup>16/</sup> Under the provisions of the Account, the participants or a majority of the independent members of the Committee could sever relations with the Bank by electing not to renew the contractual management agreement; practically this may never occur; however, it is possible under the present structure of the Account.

The prophylactic provision of Section 37 prevents the Bank from being affiliated with the Account.

Furthermore, since it is the conclusion of this court that the Account is in fact an investment fund, the complementary provisions of Sections 20 and 21, 12 U.S.C. §§ 377 and 378, prohibit the Account from being affiliated with the Bank and the Bank from being affiliated with the Account.

The Comptroller further contends that the inherent dangers with which the integration of these financial activities was previously fraught are not present in the instant relationship, since the Bank only receives a set fee for managing the Account and does not obtain any remuneration from issuing or underwriting the units of participation. This limitation in probable expected remuneration to the Bank may mitigate the possible aggressive use of the Account by the Bank, but this does not override the clear and unequivocal Congressional mandate that national banks be divorced from investment organizations. <sup>17/</sup>

It is a legislative process which determines the newly evolving circumstances which require a change in the statutes. The courts can only enforce and interpret the legislative enactments. The statutes presently in force do not allow a national bank to establish, operate, or be affiliated with an investment fund.

In view of the statements and conclusions made above, this court holds that the provisions of Regulation 9 which allow commingling of managing agency accounts do not comply with the statutory provision of the Glass-Steagall Act and are, therefore, illegal. The promulgation of these specific provisions allowing a commingling of managing agency accounts is also beyond the power of the Comptroller under Section 92a(s) of Title 12, and it is ordered to be set aside.

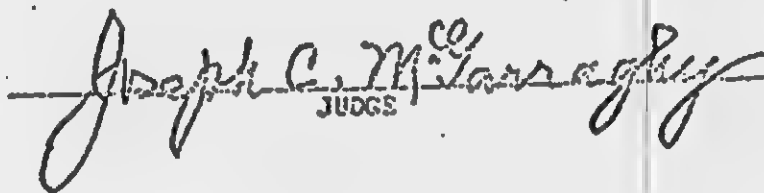
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<sup>17/</sup> The possible conflicts of interests between the Account and other aspects of the bank's activities are still present, notwithstanding the precautions which were taken by the Comptroller in delineating the powers of the Account. See Banks and Mutual Funds, Comment, 70 So.L.J. 336, 341, 342.



The summary judgment motion of the defendant is denied  
and motion of plaintiffs is granted.

Counsel for plaintiffs will submit an Order in accordance  
with the foregoing.

  
JUDGE

September 27, 1967

IN THE UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF COLUMBIA  
Civil Division

INVESTMENT COMPANY INSTITUTE, et al., )

Plaintiffs, )

v. )

Civil Action No. 1083-66

WILLIAM B. CAMP, Comptroller of the  
Currency, )

Defendant, )

FIRST NATIONAL CITY BANK  
399 Park Avenue  
New York, New York 10022 )

Applicant for Intervention. )

Motion of First National City Bank  
for Leave to Intervene as a Defendant

First National City Bank (the "Bank"), by its attorney, hereby moves, pursuant to Rule 24(a) or, in the alternative, Rule 24(b) of the Federal Rules of Civil Procedure, for leave to intervene as a defendant herein, in order that the Bank may

(1) file herein its proposed Answer of First National City Bank as Intervenor, a copy of which is attached hereto;

(2) file herein its proposed Motion of Intervenor to Grant a Stay, a copy of which is attached hereto; and

(3) prosecute an appeal from such judgment and order as may be entered in this action in accordance with the opinion of the Court dated September 27, 1967.

The Bank seeks to intervene on the ground that it has established and operates the Commingled Investment Account of First National City Bank (the "Commingled Account") referred to in the Court's opinion of September 27, 1967 and in the proposed order submitted by Plaintiffs on October 2, 1967. The Commingled Account is a bank collective investment fund for managing agency accounts that has been approved by the Comptroller of the Currency pursuant to Section 9.18(c)(5) of Regulation 9, 12 C.F.R. § 9.18(c)(5). The Bank thus has an immediate and direct interest in the subject matter of this action. The Bank's interest is to protect the Commingled Account, and its participants against the Plaintiffs' effort to destroy the Account, and the participants' expectation of its continued operation for their benefit. The Comptroller's interest is that of a public agency. The Comptroller may or may not choose to appeal such order as may be entered herein and may or may not elect to prosecute ultimate appeals. Unless the Bank is permitted to intervene for the purposes set forth above, the Bank's ability to protect its interest will as a practical matter be impaired and impeded. The interests of the Bank and the interests of the Comptroller are not identical, and the Bank's interests will not be adequately represented by the Comptroller of the Currency.

Alternatively, under Rule 24(b) the Bank seeks to intervene on the ground that its participation in the action will present questions of law and fact common to those at issue between Plaintiffs and the Comptroller and intervention by the Bank will not unduly delay or prejudice the adjudication of the rights of the original parties.

There are attached hereto in support of this motion an affidavit of Robert L. Hoguet and a Memorandum of Points and Authorities.

In connection with this motion, the Bank hereby adopts and incorporates by reference Defendant's Cross-Motion for Summary Judgment and Opposition to Plaintiffs' Motion for Summary Judgment and Defendant's Statement of Material Facts as to Which There Is No Genuine Issue, both filed herein by Defendant on April 4, 1967.

Respectfully submitted,

STEPTOE & JOHNSON

---

Stephen Ailes

1250 Connecticut Avenue  
Washington, D. C. 20036  
223-4800

Attorney for First National  
City Bank

Dated: October , 1967.

UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF COLUMBIA

-----X  
INVESTMENT COMPANY INSTITUTE, et al., :  
Plaintiffs, :  
v. :  
WILLIAM B. CAMP, Comptroller of the :  
Currency, : Civil Action  
Defendant, : No. 1083-66  
FIRST NATIONAL CITY BANK, :  
Applicant for Intervention. :  
-----X

AFFIDAVIT OF ROBERT L. HOGUET IN SUPPORT OF  
FIRST NATIONAL CITY BANK'S MOTION FOR LEAVE TO  
INTERVENE AND MOTION TO GRANT A STAY

STATE OF NEW YORK )  
COUNTY OF NEW YORK ) ss.:

ROBERT L. HOGUET, being first duly sworn, deposes  
and says as follows:

1. I am an Executive Vice President of First  
National City Bank (the "Bank"), a national banking associa-  
tion with its principal place of business in the City and  
State of New York, and I am in charge of the Bank's Trust  
and Investment Division. I am also Chairman of the Committee  
for the Bank's Commingled Investment Account (the "Commingled  
Account"). I submit this affidavit in support of the Bank's  
Motion for Leave to Intervene as a Defendant and in support  
of its proposed Motion of Intervenor to Grant a Stay.

2. The Bank and its Commingled Account are referred to frequently in the Complaint in this action, in the Court's opinion of September 27, 1967, and in the proposed Order submitted by Plaintiffs on October 2, 1967. The Commingled Account is a collective investment fund established and operated by the Bank to permit it to accept relatively small "managing agency" accounts, i.e., fiduciary accounts where the Bank provides safe keeping for the customer's funds and securities and manages the investments in his account pursuant to a power of attorney giving the Bank broad investment discretion.

3. The Bank began operation of the Commingled Account in June 1966. It took that step only after:

(a) the Comptroller of the Currency approved the Commingled Account as a permissible form of collective investment pursuant to Section 9.18(c)(5) of Regulation 9, 12 C.F.R. § 9.18(c)(5);

(b) the Board of Governors of the Federal Reserve System ruled that service by Bank officers on the Committee for the Commingled Account would not violate Section 32 of the Banking Act of 1933, 12 U.S.C. § 78;

(c) the Securities and Exchange Commission granted the Commingled Account certain exemptions from the Investment Company Act of 1940, 15 U.S.C. §§ 80a-1 to 80a-52; and

(d) the Securities and Exchange Commission declared effective a registration statement under the Securities Act of 1933, 15 U.S.C. §§ 77a-77aa, relating to participations in the Commingled Account.



In addition, the Federal Deposit Insurance Corporation announced that it believed that it was sound public policy to permit banks collectively to invest funds held in the capacity of managing agent for their customers. See Hearings on S. 2704 Before a Subcommittee of the Senate Committee on Banking and Currency, 89th Cong., 2d Sess. 25 (1966). It has been in reliance on these approvals and rulings that the Bank has proceeded with its plans for the Commingled Account.

4. The Bank has expended substantial sums of money, as well as the time and effort of its officers and employees, on the establishment of the Commingled Account. The total organizational expenses incurred by the Bank to date, including such items as legal and accounting fees and disbursements, printing costs and registration fees, amount to more than \$300,000.

5. This action was commenced by Plaintiffs on April 25, 1966, only five days after the filing with the Securities and Exchange Commission of initial registration statements with respect to the Commingled Account. Although Plaintiffs were fully aware of these filings (see paragraph 13 of the Complaint herein), they made no attempt at that time to obtain a preliminary injunction in this action that might have halted the Bank's steps to put the Commingled Account into operation. Even after operations commenced in June 1966, Plaintiffs made no attempt to stay the operation of the Commingled Account pending the outcome of this action.


6. By August 31, 1966, the end of the Commingled Account's first fiscal year, 214 persons had placed in the

hands of the Bank approximately \$2.7 million for investment through the Commingled Account. A year later, at August 31, 1967, the number of participants had increased to 621, the net amount received for investment had grown to \$9.6 million and the net asset value of the Commingled Account stood at approximately \$10.8 million.

7. Any attempt to halt the operation of the Commingled Account now, more than 16 months after operations began, would result in serious and irreparable injury to the Bank. If it should become necessary to liquidate the Commingled Account at this time and the decision of the District Court in this case were later overruled on appeal, much of what the Bank has already spent on the organization of the Commingled Account would be wasted, as would the Bank's expenses in connection with the liquidation of the Commingled Account and the distribution of its assets to the participants. The Bank would also unnecessarily incur substantial expenses in reestablishing the Commingled Account.

8. The participants in the Commingled Account will also be irreparably injured if the Commingled Account is not permitted to continue in operation pending appeal. Each person who has authorized the commingling of his funds through the Commingled Account has put at least \$10,000 in the hands of the Bank. It is the policy of the Commingled Account to seek long-term growth of principal and income and the participants are not looking for short-term trading profits. They have committed substantial funds, and in many instances have done so as part of a long-range investment program which contemplates the placing of additional funds for investment through

the Commingled Account from time to time or at regular intervals. These participants would obviously be harmed by forced liquidation of the Commingled Account, with its attendant brokerage costs and realization of taxable gains. They would also be harmed by any order of the Court which did not permit them to continue their current investment program through the Commingled Account, including the right to invest additional sums and to reinvest distributions. Even if the Commingled Account were to continue intact, without liquidation, the existing participants would be injured unless additional customers of the Bank were permitted to come in as participants. If new participants were not taken in from time to time, the Commingled Account would inevitably shrink in size as a result of withdrawals (including automatic withdrawals upon the death or incompetency of participants). As the net assets were reduced, the ratio of the operating expenses to net assets would increase. On the other hand, if the Commingled Account is permitted to grow in size, the participants would have the benefit of a lower expense ratio. Finally, the existing participants would be irreparably injured by any order of this Court which restricted their right to transfer participations as set forth in the Prospectus.

  
Robert L. Rozuet

Subscribed and sworn to before me  
this 11th day of October, 1967.



MARY P. O'NEILL  
Notary Public, State of New York  
No. 03-2965965  
Qualified in Bronx County  
Cert. Filed in New York County  
Commission Expires March 30, 1969

UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF COLUMBIA

Civil Division

INVESTMENT COMPANY INSTITUTE, et al., :

Plaintiffs, :

v. :

Civil Action  
No. 1083-66

WILLIAM B. CAMP, Comptroller of the  
Currency, :

Defendant, :

FIRST NATIONAL CITY BANK, :

Intervenor. :

Answer of First National City Bank,  
Intervenor, to Plaintiffs' Complaint

1. Intervenor, First National City Bank, a national banking association organized and existing under the laws of the United States with its principal place of business in the City and State of New York, by its attorneys, files this Answer in compliance with Rule 24(c).

2. Upon information and belief, Intervenor alleges that the collective fund for managing agency accounts maintained by it and approved by the Comptroller of the Currency under Regulation 9, 12 C.F.R. §9, is the account referred to in Paragraph 12 of the Complaint herein, and the Intervenor is the bank referred to in Paragraph 5 of the Complaint.

3. The Intervenor, First National City Bank, adopts and incorporates by reference the Answer of the Defendant, Comptroller of the Currency, except for Paragraphs 13 and 15 of the Answer.

(a) In lieu of Paragraph 13 Intervenor states that it denies the allegations contained in Paragraph 13 of the Complaint except that it admits that on April 20, 1966, registration statements relating to the commingled investment account were filed with the Securities and Exchange Commission, and that on August 25, 1965, the Office of the Comptroller of the Currency issued a statement supporting and approving the plans of Intervenor to establish a commingled fund for agency accounts, and refers the Court to the text of such registration statements and of such statement by the Office of the Comptroller of the Currency for the terms thereof.

(b) In lieu of Paragraph 15 Intervenor states that it is without knowledge and information sufficient to form a belief as to the truth of the allegations contained in Paragraph 15 of the Complaint except that (i) it denies the allegations of the first sentence of said Paragraph 15, and (ii) it admits that it maintains a commingled investment account.

Respectfully submitted,

STEPTOE & JOHNSON

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Stephen Ailes

1250 Connecticut Avenue  
Washington, D. C. 20036  
223-4800

Attorney for First National  
City Bank

Dated: October , 1967.

UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF COLUMBIA

INVESTMENT COMPANY INSTITUTE et al.	)	
	)	
Plaintiffs	)	
	)	
v.	)	Civil Action No 1083-68
	)	
WILLIAM B. CAMP, Comptroller of the	)	
Currency,	)	
	)	
Defendant	)	

O R D E R

This cause came on to be heard on plaintiffs' Complaint for Declaratory Judgment and Injunctive and Other Relief and on cross motions for summary judgment filed by plaintiffs and defendant. All parties agreed that no disputed factual issues existed and that the legal issues were ripe for summary proceedings.

The court having considered the pleadings, the exhibits and attachments thereto, having heard oral argument on the motions, and having filed a Memorandum Opinion on September 27, 1967 containing the court's Findings of Fact and Conclusions of Law;

And, the court having found that Regulation 9 promulgated by the Comptroller of the Currency (hereinafter "Comptroller"), Fiduciary Powers of National Banks and Collective Investment Funds", 12 C.F.R. §9, authorizes the banks to maintain collective investment funds exclusively for the collective investment and reinvestment of monies tendered thereto by the bank in its capacity as managing agent (hereinafter referred to as "managing agency collective investment funds");



And, the court having further found that Regulation 9, insofar as it permits national banks to operate managing agency collective investment funds (i) violates the prohibitions of Sections 16, 20, 21 and 32 of the National Banking Act of 1933, as amended, codified in Sections 24, 377, 378 and 73, 12 U.S.C.. respectively, and (ii) is beyond the power of the Comptroller under Section 92a(a), 12 U.S.C.:

And, the court having further found that the Comptroller approved the plan of the First National City Bank of New York for the establishment and operation of such a managing agency collective investment fund under the provisions of Regulation 9, 12 C.F.R.. §9;

And, it appearing that plaintiffs have standing for the reasons stated in the court's Opinion of September 27, 1967 to challenge the establishment and operation of managing agency collective investment funds pursuant to the provisions of 12 C.F.R. §9, which provisions were declared unlawful in the court's Memorandum Opinion of September 27, 1967;

And, it further appearing that plaintiffs would suffer serious and irreparable injury by reason of the establishment and operation of managing agency collective investment funds pursuant to the provisions of 12 C.F.R. §9, which provisions were declared unlawful in the court's Memorandum Opinion of September 27, 1967:

It is hereby ORDERED and ADJUDGED, as follows:

1. This court declares that those portions of Regulation 9, 12 C.F.R. §9, which permit banks to engage in and operate managing agency collective investment funds are unlawful, inasmuch as they were promulgated in excess of the Comptroller's statutory authority under Section 92a(a), 12 U.S.C., and are in violation of Sections 16, 20, 21 and 32 of the National Banking Act of 1933, as amended, codified in Sections 24, 377, 373 and 73, 12 U.S.C., respectively, and

2. This court declares that the Comptroller's approval of the plan of First National City Bank of New York to operate a managing agency collective investment fund under Regulation 9 is illegal, in excess of his statutory authority, void, and of no effect, inasmuch as it was made pursuant to regulations which are unlawful, as declared in paragraph 1 above.

3. The Comptroller is hereby ordered forthwith to set aside any portion of Regulation 9 declared illegal pursuant to paragraph 1 above and is permanently enjoined from authorizing any bank to operate managing agency collective investment funds under such Regulation; and

4. The Comptroller is enjoined from continuing in effect any prior approval to any bank, including his approval of the plan of First National City Bank of New York, which might have heretofore permitted the operation of managing agency collective investment funds under Regulation 9, and is ordered to set aside forthwith and rescind any such prior approval; and

5. The provisions of this Order are hereby stayed pending the ultimate disposition of any appeal taken herein provided that the Comptroller shall not, pending appellate proceedings herein, authorize any national banks to commence the operation of a managing agency collective investment fund.

/s/ Joseph C. McGarraghy  
JUDGE

November 9, 1967

UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF COLUMBIA

INVESTMENT COMPANY INSTITUTE, et al.. )

Plaintiffs )

v. )

Civil Action No. 1083-66

WILLIAM B. CAMP, Comptroller of the  
Currency, )

Defendant )

FIRST NATIONAL CITY BANK, )

Applicant for  
Intervention )

ORDER

This cause came on to be heard on the motion of the applicant, First National City Bank, for leave to intervene as a defendant in this action under Federal Rule of Civil Procedure 24(a), and the Court having considered said motion and the pleading tendered therewith and the arguments advanced by the plaintiffs in opposition to that motion and it appearing to the Court that the applicant can be allowed to intervene as a party defendant pursuant to Rule 24(a) for the limited purpose of prosecuting an appeal from the judgment of this Court and of participating in further proceedings in this case, it is:

ORDERED that the motion of the applicant, First National City Bank, for leave to intervene as a party defendant in this action under Federal Rule of Civil Procedure 24(a) is hereby granted for the limited purpose of allowing the applicant to prosecute an appeal from the judgment of this Court and to participate in any proceedings subsequent thereto.

/s/ Joseph C. McGarraghy

**November 21, 1967.**

Seen and approved as to form:

**G. DUANE VIETH**

**IRWIN GOLDBLOOM**

2  
UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF COLUMBIA

INVESTMENT COMPANY INSTITUTE,  
et al.,

Plaintiffs,

v.

WILLIAM B. CAMP, Comptroller  
of the Currency,

Defendant,

FIRST NATIONAL CITY BANK  
399 Park Avenue  
New York, New York 10022,

Intervenor.

31662  
CIVIL ACTION  
NO. 1083-66

FILED  
JAN 5 1968  
ROBERT M. STEARNS, Clerk

NOTICE OF APPEAL TO COURT OF APPEALS

Notice is hereby given that the Comptroller of the Currency, William B. Camp, defendant above named, hereby appeals to the United States Court of Appeals for the District of Columbia Circuit from the final judgment entered in this action on November 9, 1967.

  
HARLAND F. LEATHERS

  
IRWIN GOLDBLOOM

Attorneys, Department of Justice  
Washington, D. C. 20530

Attorneys for Defendant Comptroller  
of the Currency

C. Dean Litch, Esq.  
1229 19th St. N.W.  
WASH., D.C.

Stephen Ailes, Esq.  
1250 Conn. Ave. N.W.  
Wash. D.C.



[Filed January 5, 1968]

United States District Court for the District of Columbia

INVESTMENT COMPANY INSTITUTE et al  
*Plaintiff.*

vs.

WILLIAM B. CAMP, Comptroller of  
the Currency *Defendant.*

Civil No. 1033-66

FIRST NATIONAL CITY BANK,  
Intervenor

NOTICE OF APPEAL

Notice is hereby given this                      day of                      , 19                      , that

Intervenor, FIRST NATIONAL CITY BANK

hereby appeals to the United States Court of Appeals for the District of Columbia from the  
judgment of this Court entered on the    9th                      day of    November                      , 19 67  
in favor of    Plaintiff, INVESTMENT COMPANY INSTITUTE  
against said    Defendant, WILLIAM B. CAMP.

Archibald Cox

Stephen Ailes

Stephen Ailes  
Attorney for Intervenor

Steptoe & Johnson  
1250 Connecticut Avenue  
Washington, D. C. 20036

BRIEF FOR APPELLANT  
COMPTROLLER OF THE CURRENCY

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IN THE UNITED STATES COURT OF APPEALS  
FOR THE DISTRICT OF COLUMBIA CIRCUIT

---

No. 21,661

---

FIRST NATIONAL CITY BANK,

Appellant

v.

INVESTMENT COMPANY INSTITUTE, et al.,

Appellees

---

No. 21,662

---

WILLIAM B. CAMP, Comptroller  
of the Currency,

Appellant

v.

INVESTMENT COMPANY INSTITUTE, et al.,

Appellees.

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ON APPEAL FROM THE UNITED STATES DISTRICT  
COURT FOR THE DISTRICT OF COLUMBIA

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EDWIN L. WEISL, Jr.  
Assistant Attorney General,

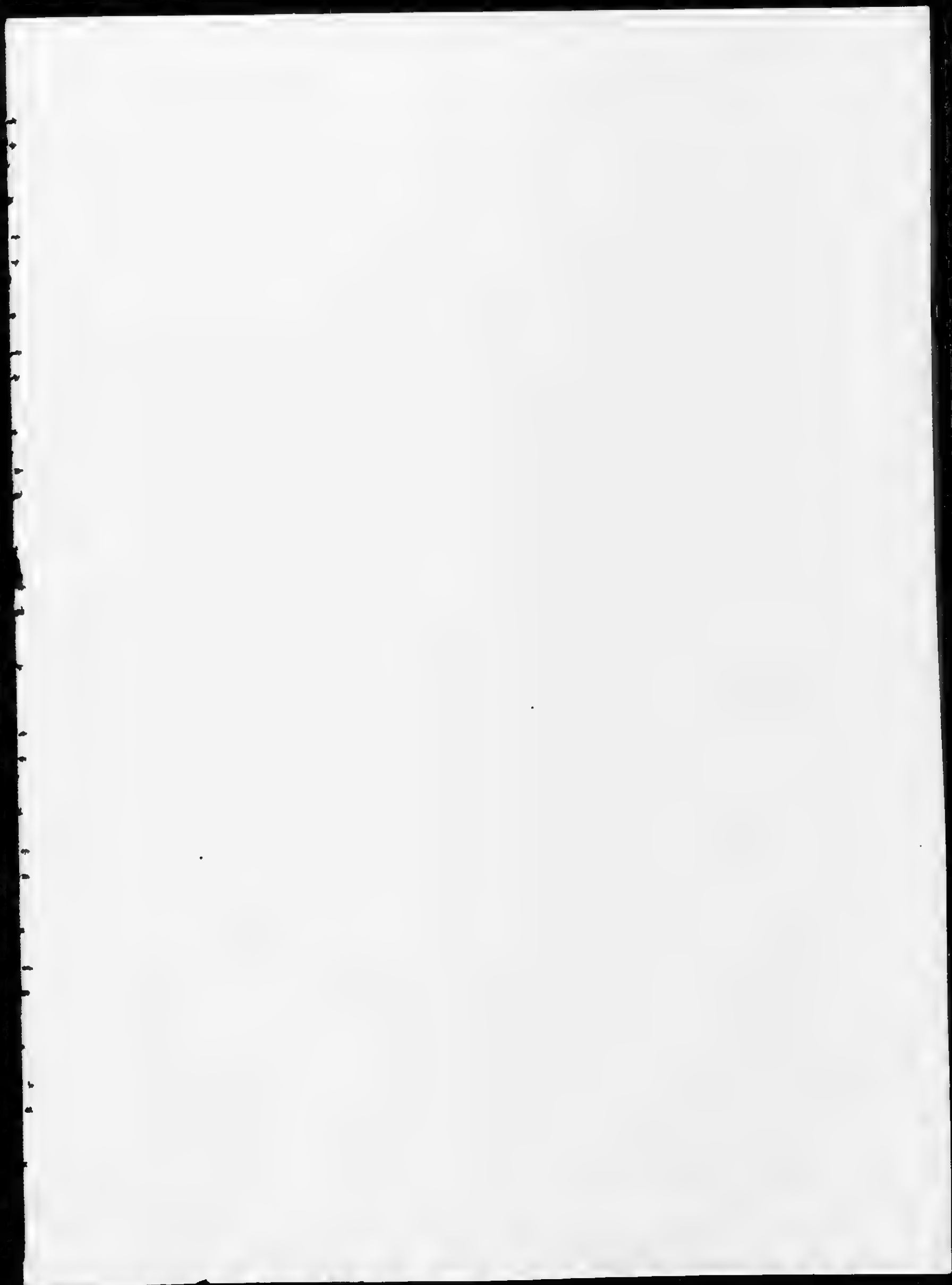
DAVID G. BRESS  
United States Attorney,

ALAN S. ROSENTHAL,  
ROBERT C. McDIARMID,  
Attorneys,  
Department of Justice,  
Washington, D.C. 20530.

United States Court of Appeals  
for the District of Columbia Circuit

FILED APR 30 1968

*Nat'l. J. Hailson*  
CLERK



## STATEMENT OF QUESTIONS PRESENTED

The Comptroller of the Currency and the Federal Reserve Board have promulgated regulations which allow, under certain restrictive conditions, and under the dual supervision of the Comptroller and the S.E.C., national banks to commingle the funds of "managing agency accounts" held by them in their fiduciary capacity. In the opinion of the appellant Comptroller of the Currency, the questions presented are:

1. Whether an association composed primarily of mutual funds and salesmen of mutual funds has standing, in the absence of any indication that Congress intended to protect them in the passage of the Glass-Steagall Act, to challenge that grant of authority by the Comptroller and the Federal Reserve Board as beyond their powers under that Act.

2. Whether, in any event, authorization of the commingled account resulted in a violation of:

(a) 12 U.S.C. 92a, which allows the national banks to act in "any \* \* \* fiduciary capacity in which state banks \* \* \* are permitted to act under the laws of [New York]" or

(b) Sections 16, 20, 21 and 32 of the Glass-Steagall Act, dealing with the issuance and underwriting of securities.



# INDEX

	<u>Page</u>
Statement of questions presented -----	1
Jurisdictional statement -----	1
Statement of the case -----	2
Statutes involved -----	13a
Statement of points -----	13a
Summary of argument -----	13a
I. Plaintiffs, who can point neither to a congressional purpose, in the passage of the Glass-Steagall Act, to restrict the competition to which they are subject, nor a statutory aid to standing, have no standing to complain of the comptroller's action -----	16
II. The authorization by the comptroller of the operation of the commingled account is clearly permitted by statute -----	29
A. A commingled account is an appropriate fiduciary activity for a national bank located in New York state, under 12 U.S.C. 92a -----	29
1. A managing agent is acting in a proper fiduciary capacity under 12 U.S.C. 92(a); commingling, when authorized by the principals, does not detract from that fiduciary status -----	30
2. New York banks are permitted to establish commingled managing agency accounts -----	34
B. The commingled account is not in violation of the requirements of the Glass-Steagall Act -----	36
1. Background -----	36
2. The act -----	39
3. The account does not issue securities within the meaning of the Glass-Steagall Act -----	41
Conclusion -----	47
Appendix A -----	A1
Appendix B -----	B1



# CITATIONS

Page

## Cases:

* Alabama Power Co. v. Ickes, 302 U.S. 464	--- 13a,17,21
American Hawaiian S.S. Co. v. Dillon, 379 U.S. 945	----- 21,22,26,27
American Trucking Ass'ns v. United States, 364 U.S. 1	----- 24
Anderson v. United States, 229 F. 2d 675 (C.A. 5)	----- 28
* Associated Industries v. Ickes, 134 F. 2d 694 (C.A. 2), vacated as moot, 320 U.S. 707	----- 18,19,23
Baker, Watts & Co. v. Saxon, 261 F. Supp. 247 (D.D.C.)	----- 12
Board of Governors v. Agnew, 329 U.S. 441	---- 41
Boss v. Hardee, 70 U.S. App. D.C. 50, 103 F. 2d 751	----- 34
Brooklyn Trust Co. v. Corwin, 5 F. Supp. 287 (E.D. N.Y.)	----- 34,35
Brown v. Christman, 75 U.S. App. D.C. 203, 126 F. 2d 625	----- 33
Chicago v. Atchison Topeka and S.F. Ry., 357 U.S. 77	----- 25
Chicago Junction Case, 264 U.S. 258	----- 24
Duba v. Schuetzle, 303 F. 2d 570 (C.A. 8)	---- 27
Dugan v. Rank, 372 U.S. 609	----- 18
* Edward Hines Trustees v. United States, 263 U.S. 143	----- 17,21
F.C.C. v. N.B.C., 319 U.S. 239	----- 24
F.C.C. v. Sanders Bros. Radio Station, 309 U.S. 470	----- 14,23,24
Frost v. Corporation Commission, 278 U.S. 515-	25

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\* Cases or authorities chiefly relied upon are marked by asterisks.

Cases Continued:Page

Frothingham v. Mellon, 262 U.S. 447 -----	20
Georgia Association of Independent Insurance Agents, Inc. v. Saxon, 260 F. Supp. 802 (N.D. Ga.) [appeal pending, C.A. 5, No. 25050] ---	12
* Hardin v. Kentucky Utilities, 390 U.S. 1 - 13a,14,17,25,28	
Hawaii v. Gardner, 373 U.S. 57 -----	18
Inland Waterways Corp. v. Young, 309 U.S. 517-	31
Joint Anti-Fascist Committee v. McGrath, 341 U.S. 123 -----	18,21
* Kansas City Power & Light Co. v. McKay, 96 U.S. App. D.C. 273, 225 F. 2d 924, certiorari denied, 350 U.S. 884 -----	13a,17,18,21,23,27
Larson v. Domestic & Foreign Commerce Corp., 337 U.S. 682 -----	18
Malone v. Bowdoin, 369 U.S. 643 -----	18
Mine Safety Co. v. Forrestal, 326 U.S. 371 --	18
Muskrat v. United States, 219 U.S. 346 -----	20
N.A.S.D. v. S.E.C., No. 21,164 -----	12
N.L.R.B. v. Seven-Up Bottling Co., 344 U.S. 344 -----	31
National Motor Freight Ass'n v. United States, 372 U.S. 223 -----	24
* Pennsylvania R.R. Co. v. Dillon, 118 U.S. App. D.C. 257, 335 F. 2d 292, certiorari denied, 379 U.S. 945 -----	13a,14,21,22,26,27
Perkins v. Lukens Steel, 310 U.S. 113 -----	20
Port of New York Authority v. Baker, Watts & Co., ____ U.S. ____ App. D.C. ____, ____ F. 2d ____ -----	12
Powers v. United States, 218 F. 2d 828 (C.A. 7) -----	28
Prudential Ins. Co. v. S.E.C., 326 F. 2d 383 (C.A. 3) -----	43

\* Cases or authorities chiefly relied upon are marked by  
asterisks.

Cases Continued:

	<u>Page</u>
* Railroad Co. v. Ellerman, 105 U.S. 166 -----	21
R.E.A. v. Central Louisiana Electric Co., 354 F. 2d 859 (C.A. 5), certiorari denied, 385 U.S. 815 -----	14,22
Schilling v. Rogers, 363 U.S. 666 -----	28
Scripps-Howard Radio v. F.C.C., 316 U.S. 4 ----	23,24
S.E.C. v. Guild Films Co., 279 F. 2d 48 (C.A. 2), certiorari denied, 364 U.S. 819 -----	44
S.E.C. v. Variable Annuity Co., 359 U.S. 65 ---	43
S.E.C. v. W.J. Howey Co., 328 U.S. 293 -----	42,43
* Sprunt & Son v. United States, 281 U.S. 249 ---	21
Tcherepin v. Knight, 389 U.S. 382 -----	43
* Tennessee Power Co. v. TVA, 306 U.S. 118 -----	13a,17,21
Texas State AFL-CIO v. Kennedy, 117 U.S. App. D.C. 343, 330 F. 2d 217, certiorari denied, 379 U.S. 826 -----	21
Udall v. Tallman, 380 U.S. 1 -----	31
Unemployment Comm'n v. Aragon, 329 U.S. 143 ---	31
United States v. Lee, 106 U.S. 196 -----	18
United States v. Sherwood, 312 U.S. 584 -----	18
United States v. Smith, _____ F. 2d _____, (C.A. 5, No. 24864, decided April 16, 1968) --	28
United States v. Storer Broadcasting Co., 351 U.S. 192 -----	27

Statutes and Regulations:

Administrative Procedure Act, 5 U.S.C. (Supp. II) 551 <u>et seq</u> -----	2,27
5 U.S.C. (Supp. II) 702 -----	27
Banking Act of 1935, 49 Stat. 709, Section 308-	40

Statutes and Regulations Continued:Page

Clayton Act, 15 U.S.C. 12, <u>et seq.</u> -----	21
Declaratory Judgment Act, 28 U.S.C. 1331 -----	1,27
Glass-Steagall Act, 48 Stat. 162: -----	1,7,12,15,16,17,27, 28,36,39,40,41,44,46,47
Section 16 -----	1,36,40,41
Section 20 -----	1,36,39,40,44,45,46
Section 21 -----	1,36,39,40,44,45,46
Section 32 -----	1,11,36,40,44,45,46
Investment Company Act of 1940:	
15 U.S.C. 80a-3(c)(3) -----	5,6,7,11
15 U.S.C. 80a-10 -----	7
15 U.S.C. 80a-10(f) -----	45
15 U.S.C. 80a-13 -----	7
15 U.S.C. 80a-15 -----	7,16
15 U.S.C. 80a-17(a) -----	45
15 U.S.C. 80a-17(d) -----	45
15 U.S.C. 80a-31 -----	8
McFadden Act of 1927, 44 Stat. 1226 -----	40
* New York Banking Law, § 100 -----	34
New York Banking Law, § 100c -----	34,35
Public Law 87-722, 76 Stat. 668 -----	4
Sherman Act, 15 U.S.C. 1, <u>et seq.</u> -----	21
Securities Act of 1933: -----	6,13,15,36,44
15 U.S.C. 77b -----	41
15 U.S.C. 77c(a)(2) -----	42,43
15 U.S.C. 77d(2) -----	42,43
15 U.S.C. 77k -----	10
* 12 U.S.C. 24 Seventh -----	32,40,47
12 U.S.C. 36(c) -----	25
12 U.S.C. 78 -----	11,13,40
* 12 U.S.C. 92a -----	1,3,13,15,29,30,32, 35,36,47
12 U.S.C. 92a(j) -----	30,31
12 U.S.C. 221a -----	45

Statutes and Regulations Continued:

	<u>Page</u>
12 U.S.C. 248(k) -----	3,4
12 U.S.C. 377 -----	13,39
12 U.S.C. 378 -----	13,39
26 U.S.C. 584 -----	5
28 U.S.C. 1291 -----	2
12 C.F.R. 9.12(a) -----	45
12 C.F.R. 9.12(a)(c) -----	45
12 C.F.R. 9.18, Regulation 9 -----	2,5
12 C.F.R. 9.18(a)(3) -----	6
12 C.F.R. 9.18(b) -----	5
12 C.F.R. 9.18(b)(2) -----	6
12 C.F.R. 9.18(b)(5) -----	8
12 C.F.R. 9.18(b)(8)(1) -----	45
12 C.F.R. 18(b)(12) -----	6
12 C.F.R. 9.18(b)(13) -----	8
12 C.F.R. 9.18(c)(5) -----	5,11
12 C.F.R. (1959 Rev.) 206, Regulation F -----	
12 C.F.R. (1959 Rev.) 206.102 -----	30
12 C.F.R. 212.2, nn 3(c), p. 243 -----	44
12 C.F.R. 218.111 -----	11,45

Miscellaneous:

75 Cong. Rec. 9909 -----	38
75 Cong. Rec. 9910 -----	38
75 Cong. Rec. 9912 -----	38
77 Cong. Rec. 3907 -----	38
77 Cong. Rec. 3914 -----	27

<u>Miscellaneous Continued:</u>	<u>Page</u>
75 Cong. Rec. 9913-9914 -----	26
1 Farrand, The Records of the Federal Conven- tion of 1787 (1911) at 21 -----	20
2 Farrand, <u>op cit.</u> , <u>supra</u> , at 73-80 -----	20
1921 Fed. Reserve Bull. 545 -----	32
1934 Fed. Reserve Bull. 609 -----	32,40
Hart & Wechsler, The Federal Courts and the Federal System (1953), at 75-77 -----	20
Hearings Before a Subcommittee of the Committee on Banking and Currency, United States Senate, 89th Cong., 2d Sess. on S. 2704, Collective Investment Funds:	
Hearings, p. 25 -----	47
Hearings, p. 81 -----	11
Hearings, p. 86 -----	31
Hearings, pp. 582 -----	31
Hearings, p. 581 -----	11,46
Hearings Before the Committee on Banking and Currency, United States Senate, 90th Cong., 1st Sess., on S. 1659, part 1, p. 27 -----	16
Hearings on H.R. 8499, H.R. 9410 Before the Subcommittee on Commerce and Finance of the House Committee on Interstate and Foreign Commerce, 88th Cong., 2d Sess., p. 108 (1968)-	31
Hearings Pursuant to S. Res. 71 Before a Sub- committee of the Senate Committee on Banking and Currency, 71st Cong., 3rd Sess.	
Appendix p. 6 -----	37
pp. 19-20 -----	38
pp. 1067-1068 -----	38
H.R. Rept. No. 150, 73rd Cong., 1st Sess., pp. 204 -----	41
H.R. Rept. No. 742, 74th Cong., 1st Sess., p. 18 -----	32,33
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Miscellaneous Continued:

Page

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* Restatement of Agency 2d § 13, § 14B, comment a -----	15,31,33,34
* Restatement of Trusts, 2d, § 179, comment f -----	34,35
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S. Rept. No. 77, 73rd Cong., 1st Sess., p. 9 ----	37,41
S. Rept. 1007, 74th Cong., 1st Sess., p. 17 -----	32
Twenty Second Annual Report of the Board of Governors of the Federal Reserve System (1935) p. 56 -----	33

IN THE UNITED STATES COURT OF APPEALS  
FOR THE DISTRICT OF COLUMBIA CIRCUIT

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No. 21,661

---

FIRST NATIONAL CITY BANK,

Appellant

v.

INVESTMENT COMPANY INSTITUTE, et al.,

Appellees

---

No. 21,662

---

WILLIAM B. CAMP, Comptroller  
of the Currency,

Appellant

v.

INVESTMENT COMPANY INSTITUTE, et al.,

Appellees

---

ON APPEAL FROM THE UNITED STATES DISTRICT  
COURT FOR THE DISTRICT OF COLUMBIA

---

BRIEF FOR APPELLANT  
COMPTROLLER OF THE CURRENCY

---

JURISDICTIONAL STATEMENT

This action was brought against the Comptroller of the Currency by appellees, alleging jurisdiction in the district court under 28 U.S.C. 1331, the Declaratory Judgment Act, and the

Administrative Procedure Act (J.A. 6). Appellees sought a declaratory judgment that a portion of the Comptroller's Regulation 9, 12 C.F.R. 9.18, which permits national banks, under certain carefully defined conditions, to commingle the funds of so-called "managing agency" accounts, was invalid; and an injunction to require the Comptroller to withdraw his approval of a commingled account already established by the First National City Bank of New York and to prohibit him from approving any new commingled accounts. On cross motions for summary judgment, the district court granted the relief sought by judgment dated November 9, 1967 (J.A. 282). A timely notice of appeal was filed by the Comptroller on January 5, 1968 (J.A. 288).<sup>1/</sup> Jurisdiction over this appeal lies under 28 U.S.C. 1291.

#### STATEMENT OF THE CASE

With the authorization of the Comptroller of the Currency, and the specific approval of the Federal Reserve Board (sometimes F.R.B.) and the Securities and Exchange Commission (hereafter S.E.C.), First National City Bank of New York (hereinafter sometimes "bank" or "Citibank") has established a "commingled managing agency account." This service, offered without advertising to its customers through the bank's trust department, allows a customer to deposit, together with an authorization and power of attorney, a minimum of \$10,000 to a maximum of \$500,000 which the bank as managing agent is to invest, at its discretion, through

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<sup>1/</sup> The bank, which intervened after judgment, also filed a timely notice of appeal, and, by order of this Court the appeals have been consolidated.

a common account. This suit was brought to enjoin the continued operation of the account and to establish that the Comptroller acted beyond his powers in authorizing such a commingled account. The appellees are an association of open end mutual funds and mutual fund purveyors, apparently aggrieved by the fact that the commingled account imposes no "load" or "redemption fee", and a lower annual charge than most mutual funds, and thus might offer an attractive alternative to the product sold by plaintiffs. The district court granted the relief sought. The Comptroller here appeals.

There is no real controversy as to the basic facts of this case. National and State banks holding fiduciary powers have traditionally operated so called "managing agency accounts." (J.A. 214, 221). In the operation of such an account, a customer of the bank will designate the bank as managing agent and give the bank broad discretion, within certain guidelines, as to the investment of his money. The bank, utilizing the power of attorney given with the agreement, will then invest and reinvest that money in accordance with the directions of the trust department officer or officers assigned to the account, until the customer desires to terminate the account. National banks are permitted to operate such accounts only if they have received a grant of fiduciary powers from the Comptroller pursuant to 12 U.S.C. 92a<sup>2/</sup> (J.A. 214).

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<sup>2/</sup> Prior to 1962, the authority to grant fiduciary powers to national banks was committed to the Federal Reserve Board. That authority was then codified as 12 U.S.C. 248(k).

As a practical matter, the operation of a managing agency account was not economically feasible for a bank unless the amount placed in the account exceeded \$100,000, since the usual charge placed for the management of the account (approximately one half of one per centum per year) could not cover the costs of smaller accounts (J.A. 214-215, 221-222). Because of the obvious advantages of larger accounts, both in terms of the additional services which could be furnished and in terms of the diversification of investment possible, the regulations of the Federal Reserve Board under former section 248(k) of Title 12, permitted collective investment of funds held by a national bank as trustee, executor, administrator or guardian and funds which were held as a part of a tax exempt pension and profit-sharing or stock bonus plan of an employer for the exclusive benefit of his employees (J.A. 213). Regulation F, 12 C.F.R. (1959 Rev.) 206. Those regulations did not, however, provide for collective investment of managing agency accounts, although provision for such collective investment was being considered by the Federal Reserve<sup>3/</sup> at the time responsibility for the supervision of fiduciary powers was shifted to the Comptroller in 1962.

After transfer of those powers to the Comptroller,<sup>4/</sup> a study was made by that office respecting how existing fiduciary regulations could be improved. After that review, the Comptroller

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<sup>3/</sup> See p. 30, infra.

<sup>4/</sup> Public Law 87-722, 76 Stat. 668.

determined that the existing regulations should be broadened to allow collective investment of managing agency accounts (J.A. 213-216). In that determination, the Comptroller held that the arguments of appellee ICI with respect to the Glass-Steagall Act, which were those presented in this case, were without merit (J.A. 217).<sup>5/</sup>

The revised Collective Investment regulation (Regulation 9), now 12 C.F.R. 9.18, permitted a national bank to utilize a common trust fund for collective investment of funds held by it under managing agency agreements which expressly provide that such monies were received by the bank in trust.<sup>6/</sup> Those regulations set out with specificity the form such collective investment funds must take and the mechanics of their operation. 12 C.F.R. 9.18(b). The regulations also provided, however, that collective investment funds might be operated in other fashions if the plan was specifically approved in writing by the Comptroller. 12 C.F.R. 9.18(c)(5).

The First National City Bank is a national bank subject to the Comptroller's regulation, and has held a permit to exercise fiduciary powers, issued by the Federal Reserve Board, since 1919 (J.A. 228). For many years, the bank has offered its Trust department customers managing agency accounts, in addition to other trust services. It has not, however, offered such accounts unless the customer deposited therein a minimum of \$200,000.00 (J.A. 221-222). Since the bank had successfully operated commingled funds

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<sup>5/</sup> ICI had been afforded the opportunity to submit its views in the proceedings before the Comptroller.

<sup>6/</sup> This format of operation would appear to come within an exception to the Investment Company Act of 1940, 15 U.S.C. 80a-3(c)(3), and ensure that the income of the trust was not taxable to it. 26 U.S.C. 584.



under the predecessor of Regulation 9 as it existed under the aegis of the F.R.B., it expressed interest in the operation of a commingled account under the expanded regulation of the Comptroller (J.A. 217). After the promulgation of the Comptroller's new regulation, however, the S.E.C. took the position that such a commingled managing agency account would be required to register under the Securities Act of 1933 and the Investment Company Act of 1940. The bank then altered its proposed account to conform to the basic requirements of the S.E.C. administered Acts.

These changes altered the operation of the account in several ways from the form envisioned by the Comptroller's regulation, although these changes in operation are changes of form and not of substance.

1. Section 18(a)(3) of Regulation 9, 12 C.F.R. 9.18(a)(3), provides for the operation of a commingled account as a common trust fund for funds received by the bank as managing agent under an express trust agreement. The account as established does not provide for an express trust agreement; rather each customer deposits his funds with the bank together with a broad power of agency specifically authorizing the bank to deposit those funds in the commingled account and to thus invest and reinvest them at its discretion (J.A. 181, 168).

2. Section 18(b)(12), 12 C.F.R. 9.18(b)(2) provides that the bank administering a commingled account shall have the exclusive management thereof. The account as established is supervised by a committee elected annually by the participants. The statute requires that no more than three of the five members of that

committee may be affiliated with the bank. 15 U.S.C. 80a-10. The committee enters into an agreement with the bank for the management of the account, which agreement is renewable yearly upon the majority vote of the participants in the account and is otherwise subject to the conditions imposed upon such an agreement by the Investment Company Act of 1940. 15 U.S.C. 80a-15. In addition, the investment policy of the account may be changed only by a majority vote of the participants. 15 U.S.C. 80a-13. Thus, under the restrictions of the Investment Company Act, the bank may not make major changes in the investment policy of the account without obtaining a majority vote; as a trustee or as an agent it could not make major changes of a previously understood policy without consent of the principal in any event. Under the Investment Company Act, it is possible that the bank might lose a majority on the committee, and the committee might then cancel the management agreement, or that the participants might vote not to renew the agreement; unless that eventuality comes to pass,<sup>7/</sup> the bank retains exclusive management of the account.

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<sup>7/</sup> If either of those events were to occur, the legal status of the account might well be different under the Glass-Steagall Act, and the committee members from the bank might conceivably be required to resign. That unlikely eventuality is not before this Court, however.

3. Section 18(b)(5), 12 C.F.R. 9.18(b)(5), provides for audit by auditors responsible only to the board of directors of the bank. The account as established provides for the annual approval of the auditors by vote of the participants. 15 U.S.C. 80a-31. Thus, the Investment Company Act merely adds an additional protection to the participants.

4. Section 18(b)(13), 12 C.F.R. 9.18(b)(13), forbids the issuance of any certificate or other document evidencing a direct or indirect interest in a common trust fund. The account as established requires the issuance of a receipt showing the units of participation credited to a customer's account. These receipts are not negotiable. Thus the requirements of the Securities Act and the Investment Company Act merely provide the participant with a proper receipt.

Although the above minor changes were made in the operation of the account in order to satisfy the S.E.C., the account still retained most of the original character envisaged by the Comptroller's regulations and was, of course, approved by the Comptroller. The protections extended to a customer whose money is accepted by the account are, by virtue of the subjection of the account to the S.E.C. requirements, even greater than they would be if solely under the direction of the Comptroller. Some of the mechanics of the administration of the account were altered, but these alterations are in large measure of form, and are not substantive. In order to obtain the advantages of the account, a bank customer tenders his funds (between \$10,000 and \$500,000) to the bank together with a broad authorization making the bank

the customer's managing agent. The authorization specifically provides for the bank's investment of the customer's funds, together with the funds of other customers who have given the same authorization, through the commingled account. If the bank is satisfied that the investment policy of the account is suitable for the customer's needs, it accepts his account, and, as his agent, adds his funds to the commingled account on one of the specified valuation dates. 8/ The customer may withdraw from the account on any valuation date, and, because of the underlying agency relationship, his interest terminates upon his death or incompetency, in which event his funds are withdrawn from the account and held for his legal representatives. (J.A. 168 et seq.).

In order to comply with the S.E.C. requirements under the Securities and Investment Company Acts, the bank registered the account under both of those Acts (J.A. 108). In that registration, the units of participation were registered as the "securities" issued, for purposes of those acts (J.A. 138-139). The management, supervision, and custody contract required by the S.E.C., between the bank and the account (J.A. 154-162),

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8/ The market value of the assets of the fund are computed regularly so that the net value of each unit of participation can be established. Each such computation is made on a "valuation date".  
at

provided that the bank, in its sole discretion, would determine all investment questions which arose. A separate agreement (J.A. 163-165), provided that:

participation in the Commingled Account will at all times be available at the request of appropriate officer of the Trust and Investment Division of the Bank to persons who have validly appointed the bank managing agent pursuant to an appropriate authorization for commingling of agency accounts \* \* \*.

(J.A. 163). That agreement further noted that it had (J.A. 165):

been entered into in view of the Securities and Exchange Commission's position that the Bank be regarded as statutory principal underwriter of the Commingled Account. By entering into this agreement, the Bank does not concede that it is the principal underwriter of the Commingled Account.

The S.E.C.'s requirement that this agreement be executed and that the bank be regarded as a statutory underwriter was, presumably, to ensure that the bank be liable under the Securities Act, 15 U.S.C. 77k, for any misstatement of a material fact in the prospectus required for the account. Unlike the traditional mutual fund underwriting agreement, however, which is of the "best efforts" variety, there is no undertaking by the bank to merchandise the account. Rather, the account merely agrees to make units of participation available to customers of the bank upon the requirement of the appropriate officer. In addition, of course, the management agreement specifically states (J.A. 161) that when the bank is called upon to give advice to its customers concerning the commingled account, it will act solely as investment advisor for the customer.

As previously noted, after the establishment of the plan of the account in this fashion, the bank obtained the approval of the necessary federal regulatory agencies. The Comptroller approved the operation of the account under 12 C.F.R. 9.18(c)(5). (J.A. 229). 9/ The Federal Reserve Board determined that the proposed account would not violate Section 32 of the Glass-Steagall Act, 12 U.S.C. 78. 12 C.F.R. 218.111. And the S.E.C., noting that participants would have the double protection afforded by the Comptroller and the S.E.C., granted the exemptions necessary from the provisions of the Investment Company Act of 1940 so that the account could operate. Investment Company Act Release No. 4538, March 9, 1966. 10/ An extensive memorandum of Legal Considerations also was released by the S.E.C.. 11/ The account then went into operation.

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9/ The Comptroller's approval specified that the management fee which the bank was to receive could not exceed the fee charged for comparable individual accounts not commingled (J.A. 23) and that the management fee would be the only fee which the bank could receive. In fact, the fee charged by the bank amounts to an average of 1/2 of 1% per annum.

10/ Set out at Hearings Before a Subcommittee of the Committee on Banking and Currency, United States Senate, 89th Cong., 2d Sess. on S. 2704, Collective Investment Funds (hereafter referred to as Hearings) p. 81. This volume was before the district court, and we understood that Citibank will undertake to furnish the appropriate number of copies to this court.

11/ Hearings, pp. 581-588.



The mutual fund industry mounted a two-pronged attack upon the operation of the account. One action was brought directly in this Court (N.A.S.D. v. S.E.C., No. 21,164) by the National Association of Securities Dealers (NASD) to review the grant of exemption by the S.E.C.. On November 21, 1967, a panel of this Court determined that the NASD had no standing to challenge the action of the S.E.C., even under that Commission's "party aggrieved" review statute. A petition by the NASD for rehearing en banc was granted in that case, then that order was revoked, the original opinion withdrawn, and the case remanded to the original panel.

The second action, that at bar, was brought by I.C.I. against the Comptroller. The suit charged that the Comptroller exceeded his authority by approving a plan in violation of the Glass-Steagall Act.

The district court, in a decision now reported at 274 F. Supp. 624, held that plaintiffs had standing, relying in large part on Baker, Watts & Co. v. Saxon, 261 F. Supp. 247 (D. D.C.), affirmed without reaching this point, sub. nom. Port of New York Authority v. Baker, Watts & Co., \_\_\_ U.S. App. D.C. \_\_\_, \_\_\_ F. 2d \_\_\_; and Georgia Association of Independent Insurance Agents, Inc. v. Saxon, 260 F. Supp. 802 (N.D. Ga.) [appeal pending, C.A. 5, No. 25050]. In addition, it suggested that the plaintiffs had standing as "private Attorney Generals" (J.A. 250) to enforce the provisions of the Glass-Steagall Act. On the merits, the district court held that the operation of a commingled account was not a fiduciary activity authorized by

12 U.S.C. 92a, both because a managing agency relationship was not a "fiduciary" relationship (J.A. 257) and because New York law did not permit competing state banks to commingle managing agency accounts. (J.A. 258). It then went on to hold that the unit of participation in the account was a "security" for purposes of the Securities Act of 1933, and that Congress intended to apply the same definition to the Banking Act of 1933, the Glass-Steagall Act. (J.A. 261). The court further held that, in approving the interlocking directorship under 12 U.S.C. 78, the Federal Reserve Board had erroneously determined that the units of participation were issued by the bank as a "single entity", rather than by the account as an entity separate from the bank. Therefore, according to the court, the account and bank were in violation of that section, as well as 12 U.S.C. 377, 378. (J.A. 269-270).

Consequently, the court held, the action of the Comptroller in promulgating the provisions of Regulation 9 allowing the commingling of managing agency accounts was beyond his power, 12/ and would have to be set aside. The final order was stayed as to the bank's commingled account pending appeal. From the order entered on that decision (J.A. 289) the Comptroller now prosecutes this appeal (J.A. 289).

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12/ In fact, the court relied on the terms of the plan approved by the Comptroller as an exception to the terms of the regulation to hold the regulation itself invalid. It is not wholly clear how this result was reached.



## STATUTES INVOLVED

The statutes involved are reproduced, in pertinent part, in Appendix A, infra.

## STATEMENT OF POINTS

1. The district court erred in holding that plaintiffs had standing to challenge the determination of the Comptroller.

2. The district court erred in holding the commingled investment account authorized by the Comptroller<sup>to be</sup> in violation of the Glass-Steagall Act and not authorized by the National Banking Act.

## SUMMARY OF ARGUMENT

I. Plaintiffs have no standing to bring this action, and the case should therefore, have been dismissed. It has been long established, as recently reaffirmed by the Supreme Court, Hardin v. Kentucky Utilities, 390 U.S. 1, that ordinarily a person has no standing to challenge the establishment of a new competitor, whether he alleges it is "illegal" or not. Tennessee Power Co. v. TVA, 306 U.S. 118; Alabama Power Co. v. Ickes, 302 U.S. 464; Kansas City Power & Light Co. v. McKay, 96 U.S. App. D.C. 273, 225 F. 2d 924, certiorari denied, 350 U.S. 884; Pennsylvania R.R. Co. v. Dillon, 118

U.S. App. D.C. 257, 335 F. 2d 292, certiorari denied, 379 U.S. 945; R.E.A. v. Central Louisiana Electric Co., 354 F. 2d 859 (C.A. 5), certiorari denied, 385 U.S. 815. The only exceptions to this rule are instances where (1) Congress has, in the passage of the statute of whose violation the plaintiff complains, made clear an intention to protect plaintiff's class against the threat of competition, Hardin v. Kentucky Utilities, 390 U.S. 1, 6, 7, or (2) Congress has enacted a "person aggrieved" aid to standing statute, F.C.C. v. Sanders Bros. Radio Station, 309 U.S. 470. Since neither of these exceptions appear in this case, the case should have been dismissed for want of standing.

II. While this Court need not reach the point, it is also clear that the court below erred in its decision on the merits, which was contrary to the previous determination by the Comptroller, the Federal Reserve Board, and the S.E.C.. A commingled managing agency is clearly a "fiduciary capacity" within the terms of 12 U.S.C. 92a, as the Comptroller found. Restatement of Agency 2d § 13, § 14B, comment a; I Scott on Trusts (3rd ed.) § 8, p. 73. Since it is a fiduciary capacity, the district court's conclusion that it was not a "trust" is irrelevant. Further, the recent action of the New York State Banking Department in granting two state banks permission to operate identical accounts makes it absolutely clear, if it was not so before, that the operation of a commingled account is a fiduciary capacity permitted to New York state banks, and thus that all requirements of 12 U.S.C. 92a are met.

The decision of the court below that the operation of a commingled account was in violation of the Glass-Steagall Act was dependent upon its determination that the extraordinarily comprehensive definition of "security" found in the Securities Act of 1933 must be extracted from that Act and forcibly implanted in the Glass-Steagall Act. That transplantation cannot be proper; if Congress had desired such a broad definition in Glass-Steagall, it would have inserted it. Further, if the court below were correct, almost all ordinary fiduciary services of banks would be illegal. The commingled account does not violate any ordinary reading of the Act, nor does it involve any of the evils which the legislative history of the Glass-Steagall Act shows that Congress



intended to correct. The commingled account involves only functions specifically authorized by statute, and thus cannot be in violation of the Glass-Steagall Act.

I. PLAINTIFFS, WHO CAN POINT NEITHER TO A CONGRESSIONAL PURPOSE, IN THE PASSAGE OF THE GLASS-STEAGALL ACT, TO RESTRICT THE COMPETITION TO WHICH THEY ARE SUBJECT, NOR A STATUTORY AID TO STANDING, HAVE NO STANDING TO COMPLAIN OF THE COMPTROLLER'S ACTION.

Plaintiffs are an association of open end mutual funds, investment advisors to mutual funds under the terms of 15 U.S.C. 80a-15, and mutual fund underwriters and purveyors. They seek to enjoin a regulation of the Comptroller and action by the Comptroller which imposes no burden or duty upon them, but merely removes a previous restriction imposed by regulation upon national banks. Plaintiffs assert standing solely on the ground that, if the Comptroller's regulation is allowed to stand, prospective customers of mutual funds may decide that their money could be more safely and more cheaply managed by banks.

The commingled account operated by the bank under the regulation imposes no initial charge and a lower annual charge than most mutual funds, and the operation of the account is subject to the safeguards of supervision by the Comptroller as well as the S.E.C.. Thus it is quite possible that, as alleged, prospective customers of plaintiffs might seek the services of banks rather than of plaintiffs, who commonly impose a "load" of 8 1/2% 13/

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13/ The load is sometimes higher, but the 8 1/2% load "is the one that most mutual fund investors pay today." Testimony of S.E.C. chairman Cohen, Hearings Before the Committee on Banking and Currency, United States Senate, 90th Cong., 1st Sess., on S. 1659, part 1, p. 27.

and a substantial annual charge. This concern on the part of plaintiffs for the high profits to be gained through the purveying of their product without competition 14/, while understandable, is not a sufficient basis upon which to predicate standing to bring suit to eliminate the Comptroller's regulation. In the absence of the slightest indication that Congress, in the passage of the National Bank Act or the Glass-Steagall Act, had any thought of protecting mutual fund salesmen, or others of their sort, from competition by the national banks, it is plain that plaintiffs have no standing to maintain this action, and that the action should have been dismissed.

1. As the Supreme Court has just reaffirmed, Hardin v. Kentucky Utilities, 390 U.S. 1, it is basic that, in the absence of a statute expressly intended to protect a plaintiff from competition, or of a statutory aid to standing, mere competitive injury does not give standing to sue to restrain action by the government. E.g., Alabama Power Co. v. Ickes, 302 U.S. 464; Tennessee Power Co. v. TVA, 306 U.S. 118; Edward Hines Trustees v. United States, 263 U.S. 143; Kansas City Power & Light Co.

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14/ Actually, the mutual funds themselves can point to no economic injury. The fund, that is, the investors, have only an interest in a pool of assets invested in a portfolio of securities. Neither the assets, the securities or the investors could be injured by the existence of the Commingled Account. The investment advisors cannot claim that Regulation 9 creates any new competition, since there is nothing at all to prevent a national bank from acting as an investment advisor to a mutual fund. To the extent that they could be damaged at all, that damage would have to stem from the fact that their advisory fees are usually based on the total asset value of the fund they advise. If large amounts of money flowed into the Commingled Account, their advisory fees would be reduced, if one assumed that absent the regulation those monies would be invested in the funds they advised. This appears an extremely tenuous interest. The real plaintiffs here would seem to be the mutual fund underwriters and salesmen who would lose a commission when a prospective customer decided that a bank's commingled account was a safer place for his funds.

v. McKay, 96 U.S. App. D.C. 273, 225 F. 2d 924, certiorari denied, 350 U.S. 884; cf. Joint Anti-Fascist Committee v. McGrath, 341 U.S. 123, 151-153 (concurring opinion). The foundation for this settled principle is not difficult to perceive.

One who seeks, by invocation of the extraordinary power of the courts, to alter the policies of the government as they have evolved through the interplay of the legislative and executive branches, must, of course, demonstrate good reason for the courts to exert their powers to interfere in the functions which the Constitution allots to the two other branches of government. Since the United States, as sovereign, has ordinarily not consented to such a suit, e.g., United States v. Sherwood, 312 U.S. 584, 586-587; Mine Safety Co. v. Forrestal, 326 U.S. 371; Larson v. Domestic & Foreign Commerce Corp., 337 U.S. 682; Malone v. Bowdoin, 369 U.S. 643; Dugan v. Rank, 372 U.S. 609; Hawaii v. Gardner, 373 U.S. 57, the action normally must be brought against the officer of the Executive with power to alter the program or policy deemed objectionable. Under a line of cases following United States v. Lee, 106 U.S. 196, an individual may reach certain actions of government agents if he can show that he has a judicially recognized cause of action against those agents as individuals and that they may not plead in bar a valid power granted them by the government. <sup>15/</sup> Associated Industries v.

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<sup>15/</sup> If the government agent can plead a valid power in bar, his actions may be reached by the judiciary only to the extent that it can be shown that mandamus would lie; i.e., that his duties are wholly ministerial, as to which no discretion on his part exists.

Ickes, 134 F. 2d 694 (C.A. 2), vacated as moot, 320 U.S. 707.

Preliminarily, however, a plaintiff in a suit against an officer of the United States must plead that he has a recognized cause of action, either as a matter of common law or as a result of a statute. If he fails in this, his suit is subject to a motion to dismiss. Traditionally, if such a motion is made by the government, it assigns lack of "standing" as the ground for dismissal.

The concept of "standing" serves to focus attention upon the status of the plaintiff, in order to ensure that only those with a grievance of a sort which is constitutionally recognized can bring suit to challenge government action. In addition, the government is now so vast, and so many decisions are made each day, that there must be some means by which the class of persons entitled to bring suit may be limited to those with a direct, judicially cognizable, interest in the matter challenged. The concept of standing serves this purpose as well. Absent such means, any person with time and inclination could challenge any government action which did not square with his personal prejudices, and the government and the courts would be put to the time and expense (and delay) of a trial in each of those cases, regardless of whether anyone directly affected objected to the action. The government is sufficiently complex so that any plaintiff with imagination can allege some illegality of action on the part of some government official, whether or not the "illegal" action affects him or whether or not it is ultimately found to exist. Such a development would result in an intolerable

burden of cases seeking what would amount to advisory opinions, making the courts into a Council of Revision, a concept considered and rejected by the Constitutional Convention. 1 Farrand, The Records of The Federal Convention of 1787 (1911) at 21, 97-98, 108-11, 138-40; 2 Farrand, op cit, supra, at 73-80.

The Supreme Court early determined that advisory opinions could not be granted upon the request of the Executive or the Legislative branches. E.g., Muskrat v. United States, 219 U.S. 346; see Correspondence of the Justices (1793), reprinted in Hart & Wechsler, The Federal Courts and the Federal System (1953), at 75-77. Nor does standing to challenge executive action ordinarily exist for a taxpayer, e.g., Frothingham v. Mellon, 262 U.S. 447, or any other self appointed guardian of the public weal, morals or purse. <sup>16/</sup> As the Supreme Court expressed it in Perkins v. Lukens Steel, 310 U.S. 113, 125, "Respondents, to have standing in court, must show an injury or threat to a particular right of their own, as distinguished from the public interest in the administration of the law."

With respect to actions of the government which result in increased competition for any particular enterprise, ordinarily there can be no standing on the part of that enterprise to complain, since the accepted norm in our society is a condition of free competition. Especially when the government action, as

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<sup>16/</sup> Unless he can show that the action violates a section of a statute intended by Congress expressly to benefit members of his class or that Congress has granted him standing as a representative of the public. See pp. 23, 25, infra.

here, merely removes a restriction previously placed upon a prospective source of competition, the enterprise, without more, can have no standing to sue to prevent the removal of that restriction, Edward Hines Trustees v. United States, 263 U.S. 143; Sprunt & Son v. United States, 281 U.S. 249; cf. Railroad Co. v. Ellerman, 105 U.S. 166, 173-174; competition is something which most enterprises must face or anticipate as one of the basic policies of the society.<sup>17/</sup> The fact that the government, by action which does not directly bear upon any rights of the enterprise, takes action which may make a particular form of competition possible, gives that enterprise no rights which it may assert against the government, just as a enterprise may not challenge the establishment of a competitor as a result of an allegedly ultra vires loan from a bank. Alabama Power Co. v. Ickes, 302 U.S. 464; Tennessee Power Co. v. TVA, 306 U.S. 118, 139-140; Joint Anti-Fascist Committee v. McGrath, 341 U.S. 123, 153; Kansas City Power & Light Co. v. McKay, 96 U.S. App. D.C. 273, 225 F. 2d 924, certiorari denied, 350 U.S. 884; Texas State AFL-CIO v. Kennedy, 117 U.S. App. D.C. 343, 330 F. 2d 217, certiorari denied, 379 U.S. 826; Pennsylvania R.R. Co. v. Dillon, 118 U.S. App. D.C. 257, 335 F. 2d 292, certiorari denied, sub nom, American Hawaiian S.S. Co. v. Dillon, 379 U.S. 945. And, of course, so long as the field in which the enterprise engages

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<sup>17/</sup> Cf. The Sherman Act, 15 U.S.C. 1, et seq; the Clayton Act, 15 U.S.C. 12, et seq.



is one open to competition, that is, where competition is not restricted by statute to a limited number of participants, <sup>18/</sup> the fact of new competition is not illegal as to the plaintiff, even though the government action in aid of competition or the activities of the competitor may be alleged to be in violation of a statute. As this Court held in Pennsylvania R.R. Co. v. Dillon, 118 U.S. App. D.C. 257, 335 F. 2d 292, 294-295, certiorari denied, sub nom. American Hawaiian S.S. Co. v. United States, 379 U.S. 945, absent a Congressional aid to standing:

"mere economic competition made possible by governmental action (even if allegedly illegal) does not give standing to sue in the courts to restrain such action. Tennessee Electric Power Co. v. Tennessee Valley Authority, 306 U.S. 118, 59 S. Ct. 366, 83 L. Ed. 543 (1939); Alabama Power Co. v. Ickes, 302 U.S. 464, 58 S. Ct. 300, 82 L. Ed. 374 (1938); Kansas City Power & Light Co. v. McKay, 96 U.S. App. D.C. 273, 225 F. 2d 924, certiorari denied, 350 U.S. 884, 76 S. Ct. 137, 100 L. Ed. 780 (1955)" Texas State AFL-CIO v. Kennedy, 117 U.S. App. D.C. 343, 345, 330 F. 2d 217, 219 (1964).

See also R.E.A. v. Central Louisiana Electric Co., 354 F. 2d 859, 863 (C.A. 5), certiorari denied, 385 U.S. 815.

2. As previously noted, there are, of course, two exceptions to the rule that one has no standing to complain of government action which merely allows prospective competitors to enter the field. Both exceptions are creatures of statute. Neither, however, is of any assistance to appellees here.

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<sup>18/</sup> See pp. 25, 26, infra for a discussion of standing granted by such a statute.

a. First, and most prominent in the development of the law of standing, is the statutory aid to standing. By the use of the so-called "person aggrieved" 19/ statutes, Congress has conferred upon any person aggrieved the right to challenge the determinations made by some administrative agencies. F.C.C. v. Sanders Bros. Radio Station, 309 U.S. 470; Scripps-Howard Radio v. F.C.C., 316 U.S. 4. Those persons, however, are granted standing only as "representatives of the public interest", Id. at 14. As the Second Circuit noted, in Associated Industries v. Ickes, 134 F. 2d 694, 704-705 (C.A. 2), vacated as moot, 320 U.S. 707:

While Congress can constitutionally authorize no one, in the absence of an actual justiciable controversy, to bring a suit for the judicial determination either of the constitutionality of a statute or the scope of powers conferred by statute upon government offices, it can constitutionally authorize one of its own officials, such as the Attorney General, to bring a proceeding to prevent another official from acting in violation of his statutory powers, for then an actual controversy exists, and the Attorney General can properly be vested with authority, in such a controversy, to vindicate the interest of the public or the government. Instead of designating the Attorney General, or some other public officer, to bring such proceedings, Congress can constitutionally enact a statute conferring on any non-official person, or on a designated group of non-official persons, authority to bring a suit to prevent action by an officer in violation of his statutory powers; for then in like manner there is an actual controversy,

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19/ See, e.g., as this Court pointed out in Kansas City, supra, 225 F. 2d at 932, "Section 9 of the Securities Act (15 U.S.C. 771) 'any person aggrieved'; Section 402(b)(2) of the Communication Act (46 U.S.C.A. 402), 'persons aggrieved or whose interests are adversely affected'; Section 1006 of the Civil Aeronautics Act (49 U.S.C. 646), 'person disclosing a substantial interest in such order'".

and there is nothing constitutionally prohibiting Congress from empowering any person, official or not, to institute a proceeding involving such controversy, even if the sole purpose is to vindicate the public interest. Such persons, so authorized, are, so to speak, private Attorney Generals.

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Although one threatened with financial loss through increased competition resulting from unlawful action of an official cannot, solely on that account, make the proper showing to maintain a suit against the official, absent such a statute, yet the "persons aggrieved" statute gives the needed authority to do so to one who comes within that description.

Under such a "person aggrieved" statute, it appears that a person who can demonstrate sufficient competitive injury in fact, can challenge the action of the government agency making the competition possible, even though he could not do so absent the grant of standing by Congress. F.C.C. v. N.B.C., 319 U.S. 239; Scripps-Howard Radio v. F.C.C., 316 U.S. 4; F.C.C. v. Sanders Bros. Radio Station, 309 U.S. 470; American Trucking Ass'ns. v. United States, 364 U.S. 1; National Motor Freight Ass'n v. United States, 372 U.S. 223. See also Chicago Junction Case, 264 U.S. 258, 267.

Congress, however, has never seen fit to enact a "person aggrieved" aid to standing statute for those challenging the actions of the Comptroller. Consequently, plaintiffs here cannot claim status as private attorneys general, 20/ and this exception to the usual rule (that the mere fact that competition may be increased through action of the government is not a sufficient ground upon which to predicate standing) is not applicable.

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20/ The district court apparently based its holding of standing on a "private attorney general" theory (J.A. 250).

b. The second exception to the general rule is that competitive injury may be a sufficient ground upon which to base standing if plaintiff is alleging the violation of a statute clearly enacted for the purpose of protecting it, or the class to which it belongs, against competitive injury. In this respect, the Supreme Court, in Hardin v. Kentucky Utilities, 390 U.S. 1, has only recently held that when the protection of electric power companies "from TVA competition was almost universally regarded as the primary objective of the limitation" whose violation was asserted, and when the statutory provision involved "does reflect a legislative purpose to protect a competitive interest, the injured competitor has standing to require compliance with that provision." Id. at 6, 7.

In so doing, of course, the Supreme Court followed the rule long followed in this Court; that when a competitive injury is alleged as ground for standing, it must first be shown that Congress, in passing the act of which violation is complained, specifically intended to protect the plaintiff's class against competitive injury of this nature before standing can be found. 21/ See, e.g., the distinction of the branch banking cases, where Congress intended to guarantee state banks against competition 22/ from

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21/ An earlier case in this line was, e.g., Chicago v. Atchison Topeka and S.F. Ry., 357 U.S. 77, in which the party seeking to uphold the statute had, if the statute were valid, a monopoly on transport services. See also, Frost v. Corporation Commission, 278 U.S. 515, where plaintiff, protected by a law which required competitors, in order to obtain a license, to demonstrate public necessity for the license, was held to have standing to challenge the grant of a license without such a showing; Jaffe, Standing to Secure Judicial Review; Private Actions, 75 Harv. L. Rev. 255.

22/ 12 U.S.C. 36(c).

national banks except in specified circumstances, pointed out in Pennsylvania R.R. Co. v. Dillon, 118 U.S. App. D.C. 257, 335 F. 2d 292, 297 at n. 6, certiorari denied, sub nom, American Hawaiian S.S. Co. v. Dillon, 379 U.S. 945.

Plaintiffs here cannot assert that they or their class were intended by Congress to be protected by the provisions of the Glass-Steagall Act they seek to invoke. They have asserted, and we have found, nothing whatever in the legislative history of that Act to indicate the slightest concern by Congress for any competitive advantage to mutual fund salesmen 23/ or purveyors of any other securities. Indeed, Senate Bulkley, one of the managers of the bill, noted in debate that the bill did not extend to the operation of the securities market. Rather, he stated, "The purpose of this bill is to improve the operation of the Federal Reserve System and the banks which are members of it. \* \* \* our field is to protect the operations of the banking system itself, and to protect the depositors and customers of the banks so that they shall have the service from national and state member banks which they are entitled to expect" 75 Cong. Rec. 9913-9914. Thus the intent of Congress was to protect the national banks from the risks in dealing in securities rather than to protect some other class of persons. It is thus plain that the stated purpose of the Act had nothing to do with the protection of the securities industry. Indeed, we find it impossible to see how any person reading the legislative history

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23/ Mutual funds were practically unknown at the time of passage of the Glass-Steagall Act.



of the portions of the Glass-Steagall Act relied on by plaintiffs could conclude that Congress intended to protect investment bankers or the securities industry. <sup>24/</sup> Their activities, far from being protected, were referred to as, e.g., "a stench in the nostrils of the people," when carried on with bank funds. 77 Cong. Rec. 3914.

It remains only to point out that the Administrative Procedure Act, 5 U.S.C. (Supp. II) 551 et seq., did not change the law of standing. That Act only grants review to:

A person suffering legal wrong because of agency action, or adversely affected or aggrieved by agency action within the meaning of a relevant statute.

5 U.S.C. (Supp. II) 702. And, as this Court pointed out, Kansas City Power & Light Co. v. McKay, 96 U.S. App. D.C. 273, 225 F. 2d 924, 931-932, certiorari denied, 350 U.S. 884, that statute was intended to preserve the rules of standing developed by the Supreme Court to that time. Thus no one can claim standing granted by the A.P.A.. See also Pennsylvania Railroad Co. v. Dillon, 118 U.S. App. D.C. 257, 335 F. 2d 292, certiorari denied, American Hawaiian S.S. Co. v. Dillon, 379 U.S. 945; Duba v. Schuetzle, 303 F. 2d 570, 574 (C.A. 8); Jaffe, Standing to Secure Judicial Review; Private Actions, 75 Harv. L. Rev. 255, 287. Cf. United States v. Storer Broadcasting Co., 351 U.S. 192, 197. <sup>25/</sup>

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<sup>24/</sup> In view of these considerations, the holding by the district court (J.A. 249) that plaintiffs had standing because Congress intended, in the Glass-Steagall Act, to protect national banks and their depositors from the risks involved in engaging in the securities business, is plainly without merit.

<sup>25/</sup> It is even clearer that the Declaratory Judgment Act "does not confer an independent source of jurisdiction upon courts for



In sum, it is plain that plaintiffs can complain only of a possible diminution of their profits as a basis for standing to attack the Comptroller's regulation: they can point neither to any Congressional intent to protect them in the enactment of the Glass-Steagall Act or to any statutory aid to standing. Since the statutory requirements which plaintiffs here seek to enforce are "in no way concerned with protecting against competitive injury," Hardin v. Kentucky Utilities, 390 U.S. 1, 6, this action clearly should have been dismissed for want of standing.

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25/ (Cont'd) a suit against the government, since relief thereunder is premised upon the existence of a judicially remediable right. E.g., Schilling v. Rogers, 1960, 363 U.S. 666, 677; Powers v. United States, 7 Cir. 1955, 218 F. 2d 828, 829; see, Anderson v. United States, 5 Cir. 1956, 229 F. 2d 675, 677." United States v. Smith, \_\_\_ F. 2d \_\_\_, \_\_\_, (C.A. 5, No. 24864, decided April 16, 1968).

II. THE AUTHORIZATION BY THE COMPTROLLER OF  
THE OPERATION OF THE COMMINGLED ACCOUNT  
IS CLEARLY PERMITTED BY STATUTE.

While plaintiffs' lack of standing to bring this suit is dispositive of the appeal, the district court's decision on the merits is also clearly wrong. For this additional reason, the judgment below cannot stand.

A. A Commingled Account Is An Appropriate  
Fiduciary Activity For A National Bank  
Located In New York State, Under 12  
U.S.C. 92a.

12 U.S.C. 92a permits a national bank holding a fiduciary permit, so far as allowed by the Comptroller and when "not in contravention of State or local law", to act in, besides numerous other specified capacities, "any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State in which the national bank is located." The district court, although apparently conceding that the duties of a managing agent were fiduciary in character (J.A. 255-256), nevertheless concluded that those duties were somewhat different from those of a "true trustee" (J.A. 256). Since the relationship between the customer and the bank was only one of a managing agency, and not that of trust, the court determined that a "managing agency relationship does not fall within the traditional fiduciary powers as determined in 12 U.S.C. §92a(a)."<sup>26/</sup> (J.A. 257).

If the district court were right in this conclusion, it would follow that no national bank could ever act as a managing agent. But, as we shall now show, the court's reading of 12 U.S.C.

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<sup>26/</sup> The logical steps in reaching that determination from the court's premises are certainly not apparent.

92a is wholly unwarranted. Nor is there justification for the court's additional conclusion that, under New York law, state banks may not establish commingled accounts such as that in issue here.

1. A Managing Agent Is Acting In A Proper Fiduciary Capacity Under 12 U.S.C. 92(a); Commingling, When Authorized By The Principals, Does Not Detract From That Fiduciary Status.

Since 1962, the supervision of the fiduciary activities of national banks has been the function of the Comptroller of the Currency, who has been given the power to promulgate regulations in the carrying out of that function. 12 U.S.C. 92(a)(j). While before the Court are the Comptroller's regulations, which allow commingled accounts and trust funds for investment purposes, the district court nevertheless relied in part upon a 1947 interpretative ruling of the F.R.B. that, under the regulations it had promulgated, a common trust fund operated for investment purposes would be improper. 12 C.F.R. 206. 102 (1959 Rev.). While, in all events, the Board's construction of its regulations -- being superseded by the Comptroller's regulations -- is of doubtful present relevance, it should be noted that, at the time of transfer of its supervisory role to the Comptroller in 1962, the Board was considering altering its regulations to allow commingled accounts of the character of that at bar. When asked about this in 1965, William McChesney Martin, Jr., Chairman of the Bank of Governors of the Federal Reserve System, testified:

It was under consideration, Mr. Chairman, by the Board when the transfer was made. We had been discussing the pros and cons for [sic] it for a long time but we had not come to the conclusion that this was a desirable thing at the time the transfer was made.

It was not that we were opposed to it.

Hearings on H. R. 8499, H. R. 9410 Before the Subcommittee on Commerce and Finance of the House Committee on Interstate and Foreign Commerce, 88th Cong., 2d Sess., p. 108 (1965).<sup>27/</sup>

With respect to the Comptroller's regulations,<sup>28/</sup> even apart from the principle that deference should be given to the interpretation of a statute by the agency charged with its administration (Unemployment Comm'n v. Aragon, 329 U.S. 143, 153; Udall v. Tallman, 380 U.S. 1, 16-17),<sup>29/</sup> it is clear that a managing agency relationship is a proper fiduciary function. It is well established that any true agency relationship is a fiduciary one. Restatement of Agency 2d § 13, § 14B, comment a; I Scott on Trusts (3rd ed.) § 8, p. 73. And the Comptroller, the F.R.B.<sup>30/</sup> and the S.E.C.<sup>31/</sup> have all recognized that a managing agency is a proper fiduciary function for a bank.

The district court's apparent holding that the term "fiduciary" in the statute is necessarily equivalent to "trust" is wholly without support. Indeed, the statute itself provides that national banks may act as e.g., trustee, executor, administrator, registrar, assignee, receiver "or in any other fiduciary capacity" in which

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<sup>27/</sup> Plaintiffs asserted below that since the powers granted under the fiduciary powers statute were assertedly unchanged when the statute was reenacted in order to give supervisory power to the Comptroller, Congress must have meant to freeze the scope of fiduciary powers as they had been interpreted by the Board. Such a contention, if renewed, is frivolous. N.L.R.B. v. Seven-Up Bottling Co., 344 U.S. 344, 354.

<sup>28/</sup> Authorized by 12 U.S.C. 92a(j).

<sup>29/</sup> See also, Inland Waterways Corp. v. Young, 309 U.S. 517, 524.

<sup>30/</sup> Hearings, pp. 582, 586.

<sup>31/</sup> Hearings, p. 86.

competitive corporations are permitted to act. Obviously, "any other fiduciary capacity" cannot properly be read to mean "any other fiduciary capacity so long as it is that of trustee".

As early as 1921, the Federal Reserve Board held that a bank could act as a transfer agent, since that involved a fiduciary relationship within the meaning of the predecessor of Section 92a. 1921 Fed. Reserve Bull. 545. At least since 1930, national banks have, with the approval of the banking agencies, utilized managing agency agreements to manage accounts for individual customers (J.A. 214). And by 1934, both the Federal Reserve Bank and the Comptroller had formally held that a managing agency to purchase common stock for a customer was permissible, 1934 Fed. Reserve Bull. 609. Indeed, in 1935, Congress amended the predecessor of 12 U.S.C. 24 Seventh to provide (as the Section does now) that, in the case of a national bank,

The business of dealing in securities and stock by the association shall be limited to purchasing and selling such securities and stock without recourse, solely upon the order, and for the account of customers, and in no case for its own account, \* \* \*.

The clause had previously specified "investment securities" rather than "securities and stocks." As the Senate Report put it, that amendment "merely clarifies [12 U.S.C. 24 Seventh] so as to provide that national banks (and consequently member banks) may not buy and sell stocks for their own account." S. Rept. 1007, 74th Cong., 1st Sess., p. 17. The House Report stated that the amendment would "make it clear that national banks and other member banks may purchase and sell stocks for the account of their customers but not for their own accounts" H. R. Rept. 742, 74th Cong.,

1st Sess., p. 18. The amendment was regarded as a technical one, to ensure that the law conformed to previous rulings of the Comptroller and the F.R.B.. Twenty Second Annual Report of the Board of Governors of the Federal Reserve System (1935), p. 56.

Thus it is clear that Congress envisioned the use of the managing agency device by a bank under its fiduciary powers. Indeed, the "leading authority on the law of trusts" cited by the district court (J.A. 256), states, only a few paragraphs further on from the statement quoted in the opinion below (J.A. 256), in discussing powers of trust companies and banks,

The institution may undertake a managing agency as it is called. In this case it assumes such further duties as may be agreed upon between it and the customer. These duties involve some degree of active management.

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A trust institution may undertake further duties as attorney-in-fact. The extent of its duties depends upon the terms of the power of attorney executed by the customer. It may undertake, for example, the entire management of investments for a customer, making and changing investments on its own responsibility, without specific directions from the customer.

I Scott on Trusts (3rd ed.) § 8.1, pp. 80-81. Moreover, an agent holding title to and power to deal with his principal's property, as here, is a trustee by operation of law, a fiduciary capacity even under the district court's view. Restatement of Agency 2d, § 14B, § 423 comment a, § 425 comment a.

In short, a managing agency is a true fiduciary relationship. The fact that the agent here is expressly authorized to commingle the funds of his principals certainly makes this no less so.

Brown v. Christman, 75 U.S.App.D.C. 203, 126 F. 2d 625. See also,



e.g., Restatement of Agency, 2d, § 13; Restatement of Trusts, 2d, § 179 comment f; III Scott on Trusts, (3rd ed.) § 227.9; Brooklyn Trust Co. v. Corwin, 5 F. Supp. 287, 289 (E.D.N.Y). Cf. Boss v. Hardee, 70 U.S.App.D.C. 50, 103 F. 2d 751, 755-756.

2. New York Banks Are Permitted To Establish Commingled Managing Agency Accounts.

The district court was equally in error as to its analysis of New York law.<sup>32/</sup> Its holding that New York banks are not permitted to act as managing agents for commingled accounts was based on Section 100c of the New York Banking Law, which specifically permits commingling of certain types of trust funds, but does not mention managing agency accounts (J.A. 258). Section 100c, however, merely authorizes commingling in certain cases where the instrument of trust does not authorize commingling. The fact is, nevertheless, that Section 100 of the Banking Law grants State banks authority "to act as attorney in fact or agent of any person \* \* \* for any lawful purpose" (Subdivision 1), and empowers such a bank to

take, accept and execute any and all such trusts, duties and powers of whatever nature or description conferred upon or entrusted or committed to it by any person \* \* \* and to receive, take, manage, hold and dispose of according to the terms of such trust, duty or power, any property \* \* \* which may be the subject of any such trust, duty or power.

(Subdivision 5). Under the terms of that section, collective accounts and trust funds have for years been maintained when authorized by the governing instrument, without regard to the restrictions

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<sup>32/</sup> Passing the question of whether, as plaintiffs seem to assert, a mutual fund may be one of "the other corporations which come in- to competition with national banks", we restrict ourselves to the issue of whether a New York State bank is permitted under State law to operate a commingled account.

of section 100c (J.A. 222-223). These are called "contract" funds (J.A. 223). This practice is, of course, in accord with the general rule that trusts may be commingled without statutory authority if the governing instrument allows. Restatement of Trusts, 2d, § 179 comment f; III Scott on Trusts (3rd Ed.) § 227.9. And such commingling of contract funds is clearly proper under Section 100. Brooklyn Trust Co. v. Corwin, 5 F. Supp. 287, 289 (E.D.N.Y.).

If there could have been any question as to the propriety of commingled managing agency accounts when the commingling is authorized by the principals, it has been removed since the date of decision by the district court. Prior to the decision below, the New York State Banking Department had stated publically that there was nothing in New York law to prevent state banks from organizing collective investment funds of the sort at bar. New York Times, August 27, 1965, p. 36, col. 3. Since the decision below, that Department has rendered two formal opinions, to counsel for Manufacturers Hanover Trust Co., and to counsel for the Bank of New York, approving commingled investment accounts almost identical to that at bar. (Those opinions are attached as appendix B.)<sup>33/</sup> Those formal opinions state unequivocally that each bank "may establish and operate the proposed Collective Investment Management Account in the exercise of the fiduciary powers conferred upon New York trust companies by Section 100 of the Banking Law \* \* \*" (pp. B3 , B8 , infra).

Thus it is quite plain that Citibank is authorized to operate the Commingled Account under the terms of 12 U.S.C. 92a since the operation would be in a fiduciary capacity in which state banks are permitted to act.

<sup>33/</sup> If desired, we are prepared to furnish the Court with certified copies of those documents. - 35 -

B. The Commingled Account Is Not In Violation Of  
The Requirements Of The Glass-Steagall Act.

We have already established that the account is a fiduciary activity authorized under 12 U.S.C. 92a. We now establish that the district court was in error when it determined that the operation of the account violated several sections of the Glass-Steagall Act.

Sections 16, 20, 21 and 32 of the Glass-Steagall Act regulate the manner in which banks can deal in and with "securities." The district court, applying the comprehensive definition of "security" contained in the Securities Act of 1933 to the Glass-Steagall Act, which contains no definition of the term, held that the bank was in violation of each of those sections. The short of the matter is that the Securities Act definition cannot be applied to the Glass-Steagall Act, which has an entirely different purpose, without making illegal many clearly proper banking functions. The bank is merely doing for many principals what it is clearly authorized to do for one principal; the "public" aspects of this account cannot make the receipt issued any more a "security" than the receipt issued for an account for a single principal.

1. Background.

The Glass-Steagall Act, 48 Stat. 162, enacted in 1933 as a result of the stock market crash commencing in 1929 and the tremendous number of bank failures which had occurred during the twenties and early thirties, was intended to ensure that the commercial banking system and the safety of deposits therein were not endangered by the speculative practices, through the use by the securities industry of bank funds, which had led to the

collapse. E.g., S. Rept. No. 77, 73rd Cong., 1st Sess., p. 9. These speculative practices had, in substantial part, been carried on through the "securities affiliates" of the banks. Id., at 9-10. These securities affiliates were organized because of the common law prohibition against the investment by a bank of its own funds in common stocks, and were designed to be solely controlled by the bank with which they were affiliated. Through the medium of bank loans to the affiliate secured by the securities held by the affiliate, or by bank credit to the affiliate, these organizations utilized the moneys held by the bank to "devote themselves in many cases to perilous underwriting operations, stock speculation, and maintaining a market for the banks' own stock \* \* \*." <sup>34/</sup> Id. at 10. The underwriting in which the affiliates engaged was the so called "firm-commitment" or wholesale underwriting, see I Loss, Securities Regulation 2d ed., pp. 159-171, in which the risk of loss rested on the affiliate. They were described as,

Wholesalers of security issues, purchasing entire offerings or participating in purchase and banking groups which acquire whole issues of securities from governmental bodies or corporations.

Hearings Pursuant to S. Res. 71 Before a Subcommittee of the Senate Committee on Banking and Currency, 71st Cong., 3rd Sess.  
(hereinafter S. Res. 71 Hearings), Appendix p. 6. In short, the

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<sup>34/</sup> In several instances in which the affiliates, on credit from the associated bank, had engaged in market activities in support of the price of the stock of the parent bank, rather spectacular collapses resulted.

affiliates undertook, for their own account as principals, operations in the securities markets which were highly speculative -- by engaging in high leverage short-term transactions, by utilizing the bank's money to engage in "market support" operations for dubious stocks and other securities held by them, or simply by making high risk investments. See 1920 Report of the Comptroller of the Currency, S. Res. 71 Hearings, pp. 1067-1068, reprinted in part in the opinion below (J.A. 266-267).

Because of the high risk (and commensurately high possible gain) involved in the affiliate's acting as principal in these transactions, the inherent conflict of interest sometimes resulted in an abuse of the relation between customer and banker. E.g., 77 Cong. Rec. 3907, 4028. The correspondent relationship between small and large banks was, as well, abused in a number of instances through the activities of the affiliates. Customers of small correspondent banks who sought information as to securities, as well as the managers of trust or managing agency accounts of those small banks and the customers and accounts of the large bank itself, were directed to rely on the supposed investment expertise of the personnel of the securities affiliate of the large bank. For each sale, however, the affiliate was tempted to make a handsome underwriting profit or profit by unloading a security owned by it. The prospect of these speculative profits too often resulted in recommendations which were unsound, and the resultant wide distribution of highly dubious securities. S. Res. 71 Hearings, pp. 19-20; Remarks of Senator Bulkley, 75 Cong. Rec. 9909, 9910, 9912. Debt securities, of course, could be, and were, sold by the securities affiliate directly to the correspondent banks and to the affiliate



bank, the officers of the bank and the affiliate frequently being more interested in the profit to be garnered by underwriting than in the soundness of the security.

Another evil to be dealt with resulted from the existence of the "private bankers," which operated as partnerships and were, in many instances, unregulated by the States or by the Federal government. These houses were not restricted as to the investment of their own funds, and consequently could deal in stocks as well as debt securities. Further, they could operate in competition with commercial banks, accepting deposits and other accounts. Stated otherwise, these private bankers could engage, as partnerships, in all the activities for which commercial bankers were required to utilize investment affiliates, and thus were equally dangerous to the banking system. Indeed, the possibility of conflict of interest was even more direct, since both the banking and sale functions were combined in one organization.

## 2. The Act.

The Glass-Steagall Act has four sections here relevant. Section 20 (12 U.S.C. 377) provides that no member bank of the Federal Reserve System shall be "affiliated" with any organization "engaged principally in the issue, flotation, underwriting, public sale, or distribution at wholesale or retail \* \* \* of stocks, bonds, debentures, notes, or other securities \* \* \*."

Section 21 (12 U.S.C. 378) makes it unlawful for any organization or person "engaged in the business of issuing, underwriting, selling, or distributing, at wholesale or retail, \* \* \* stocks, bonds, debentures, notes, or other securities, to engage at the same time to any extent whatever in the business of receiving



deposits \* \* \*", subject to a provision allowing banks to deal in investment securities to the extent provided by 12 U.S.C. 24 Seventh.

Section 32 (12 U.S.C. 78), provides that no officer, director, employee, partner or member of any organization primarily engaged in the issue, flotation, underwriting, public sale or distribution of stocks, bonds, or other similar securities, shall serve at the same time as an officer, director, or employee of a member bank of the Federal Reserve System, except when the Federal Reserve Board allows such service by general regulation in situations when in the judgment of the Board such service would not "unduly influence the investment policies of such member bank or the advice it gives its customers regarding investments."

Section 16, as here relevant 12 U.S.C. 24 Seventh, amended and reenacted the portion of the McFadden Act of 1927, 44 Stat. 1226, allowing a national bank to buy and sell investment securities without recourse solely on the order of, and for the account of, its customers, and not for its own account. In 1935, Section 16 was amended to make this authorization apply to "securities and stock" rather than to "investment securities." Section 308 of the Banking Act of 1935, 49 Stat. 709. This was understood to be a technical amendment, and merely codified rulings by the F.R.B. and the Comptroller that purchase and sale of stock by a bank for the account of a customer was lawful under the Glass-Steagall Act. 1934 Fed. Reserve Bull. 609. See pp. 32-33, supra.

Thus, Section 20 was designed to require the break-up of the securities affiliates, Section 21 to force the private banks out of either the banking or investment banking fields, and Section 32 to ensure that no person with a financial interest in selling

securities could serve in a position where he might influence a bank's purchase of securities for itself or for its customers. <sup>35/</sup>

Section 16 was intended to confine the securities dealings of the banks within traditional bounds of agency. See S. Rept. 77, 73rd Cong., 1st Sess., pp. 16-18; H.R. Rept. No. 150, 73rd Cong., 1st Sess., pp. 204.

3. The Account Does Not Issue Securities Within The Meaning Of The Glass-Steagall Act.

As heretofore noted, the district court based its conclusion that the commingled account violates the Glass-Steagall Act upon the dual premises (1) that the "units of participation" issued by the commingled account constituted "securities" within the meaning of the definition of that term in the Securities Act of 1933, 15 U.S.C. 77b, and (2) that that definition was intended by Congress to be applied for the purposes of the Glass-Steagall Act. There is no need to consider the validity of the first of these premises since, manifestly, the second premise will not withstand analysis.

The definition of "security" in the Securities Act, 15 U.S.C. 77b, includes "any note, \* \* \*, bond, \* \* \*, evidence of indebtedness, certificate of interest or participation in any profit sharing agreement, \* \* \*, investment contract, \* \* \*." <sup>36/</sup> It well

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<sup>35/</sup> Board of Governors v. Agnew, 329 U.S. 441, 449.

<sup>36/</sup> There is, of course, no such comprehensive definition in the Glass-Steagall Act, although one might suppose that Congress would have included one if it was intended to apply. Congress, after all, clearly did not think that the comprehensive definition of "security" in the Securities Act was so obvious that it could be understood without being spelled out.

may be that, as the S.E.C. has concluded (see p. 6 , supra), the units of participation here are securities for the purpose of that act, since they fall arguably within two of the above clauses,<sup>37/</sup> and those definitions are to be broadly construed for the purposes of that Act. Cf. S.E.C. v. W. J. Howey Co., 328 U.S. 293. But, on the other hand, many of the instruments of trust, the passbooks, the agency agreements, and the other necessary indicia of fiduciary relationships utilized by all banks equally fall within the definition of "security" in the Securities Act. A passbook for example, is clearly an "evidence of indebtedness", and an instrument of trust may be an investment contract, as may be an agency agreement, for Securities Act purposes. These interests are not required to be registered because issued by a bank, 15 U.S.C. 77c(a)(2) or because of the private offering exemption, 15 U.S.C. 77d(2); but they appear nonetheless to be securities within the meaning of the terms in that Act as the S.E.C. has construed them.

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<sup>37/</sup> Certificate of interest, etc., and investment contracts.

To be sure, such indicia of interest as passbooks and individual managing agency agreements are not generally thought of as securities. But this is not because they are not deemed to fall within the definition of security in the Securities Act but, rather, because (even if securities) they need not be registered because of the exemptions in 15 U.S.C. 77c(a)(2) and 77d(2). In common parlance there is a tendency to equate "security" with the registration requirement, with the result that the sale of one grove of orange trees with an upkeep contract (not required to be registered) would not strike the ordinary lawyer as a "security", while the sale of many such groves would be recognized as coming within the ambit of the Act. W. J. Howey Co., supra. The fact is, however, that whether such a sale involves "security" (as distinguished from whether registration is required), does not depend on the number of offerees, or the nature of the offeror. For, as the Supreme Court has just recently noted again, the Securities Act and the Securities Exchange Act are remedial legislation, and terms therein should be construed broadly in order to effectuate the Congressional purpose. Tcherepin v. Knight, 389 U.S. 382. In that case, the Court held that withdrawable shares of a savings and loan association were "securities" within the meaning of those acts. See also S.E.C. v. Variable Annuity Co., 359 U.S. 65; Prudential Ins. Co. v. S.E.C., 326 F. 2d 383 (C.A. 3), holding variable annuity insurance certificates to be "securities" within the 1933 and 1940 acts.

Plainly, the extensive definition of "security" in the Securities Act of 1933 cannot be imported to the Glass-Steagall Act as the district court sought to do. If it were, many savings and loan associations would be operating in violation of the criminal provisions of Section 21 of that act, as Citibank has here been found to be. If the definition were the same, the bank which had accepted stock or bonds as security for a loan would be in violation of the criminal provisions of Section 21 if the loan were defaulted and the security had to be sold. Cf. S.E.C. v. Guild Films Co., 279 F. 2d 485 (C.A. 2), certiorari denied, 364 U.S. 819. Further, it would be illegal under Section 32 for an officer or director of a savings and loan institution 38/ or an insurance company offering variable annuities to serve as director of a bank. Moreover, since most indicia of fiduciary relationship are "securities" under the Securities Act, the reading of the Glass-Steagall Act adopted by the district court would make any bank which accepted deposits and issued passbooks therefor guilty of a violation of Section 21, and every bank with a trust department in violation of either Section 20 or 21, depending on whether the trust was thought to be a separate entity. Congress clearly intended no such absurd result.

For the purposes of the Glass-Steagall Act, therefore, the term "security" cannot be interpreted in the same fashion as for the purposes of the Securities Act. Rather, it must be read to make the enforcement of Glass-Steagall conform to the intent of Congress. That intent clearly does not bar the operation of the account.

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38/ Cf., 12 C.F.R. 212.2, nn 3(c), p. 243.

Most obviously, of course, the operation of the account involves none of the possible evils sought to be corrected by Congress. The account serves as an investment device neither for the bank nor for its shareholders. The bank itself is prohibited from participating in the account, 12 C.F.R. 9.18(b)(8)(1). The account may not underwrite securities, lend or borrow money. Nor may the account invest its funds in stock or obligations of the bank. 12 C.F.R. 9.12(a)(c). There can be no self dealing by the bank by selling the account the "investment securities" it is permitted by law to underwrite or deal in. 15 U.S.C. 80a-10(f), 17 (a), 17(d); 12 C.F.R. 9.12(a). The only profit which the bank can make out of the operation of the account is its advisor's fee. 39/

Moreover, the operation of this account, so long as the account is controlled by the bank, 40/ is, as noted by the Board, merely an extension of traditional fiduciary functions performed

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39/ There are, of course, always the possibilities for conflict of interest which inhere in the operation of a trust department by any commercial bank; e.g., the account (or trust fund) might invest in the securities of a large customer of the bank which needed money, thus furnishing the funds for repayment of the loan. The opportunities for this kind of conflict, however, are no greater in one case than in the other, and Congress long ago made the decision to allow the merger of trust and commercial functions under the supervision of the F.R.B. (now the Comptroller).

40/ If the participants later vote to end the majority control by the bank personnel on the board, then the question ceases to be one of a possible violation of Section 21, and becomes one of the violation of Section 20. There is no such violation because the required affiliation within the terms of 12 U.S.C. 221a does not exist. If the bank did lose control, however, the grant by the F.R.B. of an exemption to Section 32 would no longer be applicable, 12 C.F.R. 218.111, and the question would be moot.



by banks. 41/ Legal Memorandum of Federal Reserve Board, F.R. Doc. 65-10741, set out at Hearings, 581, 586. For the board noted that, ibid.:

There can be no question of the authority of a national bank to handle investments in securities as agents on behalf of customers. Paragraph Seventh of Section 5136, Revised Statutes (12 U.S.C. 24) specifically authorizes such activity, while dealing in or underwriting securities, where the bank acts as a principal for profit, rather than agent for a fee or commission, is strictly limited by statute.

Both as a practical matter and as a matter of function, the only difference between this account and a traditional managing agency account is that there are a number of principals rather than merely one. But that can make no difference to the issue of whether Congress thought of these functions as improper under Glass-Steagall, any more than there could be a distinction between a single and joint savings account for Glass-Steagall purposes, or, indeed, between individual and commingled trust funds. Inasmuch as the functions of the bank here appear to be clearly proper and within the contemplation of Congress, the indicia of fiduciary relationship here cannot be "securities" within the Glass-Steagall Act, and there is no need to go further to determine whether the handling of these indicia violates

41/ The F.R.B., in its legal memorandum, Hearings, p. 581, noted that in its view, units of participation would be regarded as "securities" based upon its previous holdings that mutual fund shares were securities for Section 32 purposes. Because the bank and the account were a single entity for all practical purposes, however, it held that there was no violation of Section 32. In fact, in this instance, the relationship of bank and customer is quite different from that of mutual fund and investor. The bank has accepted all the fiduciary responsibilities toward each customer of an agent with title to his principal's goods, which amount to those of a trustee, see pp. 32, 33, supra. A mutual fund, as the other had, has merely the duty toward the investor implied by contract, as the court below found (J.A. 238). For this reason, when units of participation are issued by a bank, as they are here, the activity carried on is clearly one approved by Congress, and the "units" are merely a formal recognition of the agency relationship and not securities for Glass-Steagall purposes.

Sections 20 and 21.<sup>42/</sup>

In sum, the commingled account, approved by the Comptroller, the Federal Reserve Board and the S.E.C., is not akin to any of the evils at which the Glass-Steagall Act was directed, and its establishment appears to be entirely in the public interest, as the responsible agencies have noted.<sup>43/</sup> The end of the matter is that Congress specifically thought these functions proper, as it demonstrated in amending 12 U.S.C. 24 Seventh in 1935, and by re-enacting the fiduciary powers section as 12 U.S.C. 92a in 1962 after a long history of managing agency accounts being offered by banks under those powers; therefore, the term "securities" in the Glass-Steagall Act should not be stretched to reach the account, so long as the account is operated as a fiduciary service of the bank.

#### CONCLUSION

For the above stated reasons, the decision below should be reversed.

Respectfully submitted,

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APRIL 1968

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<sup>42/</sup> It seems doubtful that both of these disparate sections could be violated by the same actions of the bank.

<sup>43/</sup> The FDIC, as well, has recognized that the commingled account is in the public interest. Hearings, p. 25.

A P P E N D I X A



## APPENDIX A

### STATUTES INVOLVED

12 U.S.C. 92a provides in pertinent part:

#### § 92a. Trust Powers.

##### (a) Authority of Comptroller of the Currency.

The Comptroller of the Currency shall be authorized and empowered to grant by special permit to national banks applying therefor, when not in contravention of State or local law, the right to act as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State in which the national bank is located.

##### (b) Grant and exercise of powers deemed not in contravention of State or local law.

Whenever the laws of such State authorize or permit the exercise of any or all of the foregoing powers by State banks, trust companies, or other corporations which compete with national banks, the granting to and the exercise of such powers by national banks shall not be deemed to be in contravention of State or local law within the meaning of this section.

(j) \* \* \* The Comptroller of the Currency is authorized and empowered to promulgate such regulations as he may deem necessary to enforce compliance with the provision of this section and the proper exercise of the powers granted therein.

Section 100 of the New York Banking Law provides in pertinent part:

#### § 100. Fiduciary Powers.

Every trust company shall have, subject to the restrictions and limitations contained in this chapter, the following powers: \* \* \*.

\* \* \* \* \*

1. \* \* \* To act as attorney in fact or agent of any person or corporation, foreign or domestic,

for any lawful purpose.

\* \* \* \* \*

5. To take, accept and execute any and all trusts, duties and powers of whatever nature or description as may be conferred upon or entrusted or committed to it by any person or persons, or any body politic, corporation, domestic or foreign, or other authority by grant, assignment, transfer, devise, bequest or otherwise \* \* \*, and to receive, take, manage, hold and dispose of according to the terms of such trust, duty or power, any property or estate, real or personal, which may be the subject of any such trust, duty or power.

24 Section 16 of the Glass-Steagall Act, as amended, 12 U.S.C. (Seventh), provides in pertinent part:

§ 24. Corporate powers of associations.

Upon duly making and filing articles of association and an organization certificate a national banking association shall become, as from the date of the execution of its organization certificate, a body corporate, and as such, and in the name designated in the organization certificate, it shall have power --

\* \* \* \* \*

Seventh. To exercise by its board of directors or duly authorized officers or agents, subject to law, all such incidental powers as shall be necessary to carry on the business of banking; by discounting and negotiating promissory notes, drafts, bills of exchange, and other evidences of debt; by receiving deposits; by buying and selling exchange, coin, and bullion; by loaning money on personal security; and by obtaining, issuing, and circulating notes according to the provisions of this chapter. The business of dealing in securities and stock by the association shall be limited to purchasing and selling such securities and stock without recourse, solely upon the order, and for the account of, customers, and in no case for its own account, and the association shall not underwrite any issue of securities or stock: Provided, That the association may purchase for its own account investment securities under such limitations and restrictions as the Comptroller of the Currency may by regulation prescribe. \* \* \*. As used in this section the term "investment securities" shall mean marketable obligations, evidencing indebtedness of any person, copartnership, association, or corporation in the form of bonds, notes and/or debentures commonly known as investment securities under such further definition of the term "investment securities" as may by regulation be prescribed by the Comptroller of the Currency.



Except as hereinafter provided or otherwise permitted by law, nothing herein, contained shall authorize the purchase by the association for its own account of any shares of stock of any corporation. \* \* \*.

Section 20 of the Glass-Steagall Act, as amended, 12 U.S.C. 377, provides in pertinent part:

§ 377. Affiliation with organization dealing in securities; penalties.

After one year from June 16, 1933, no member bank shall be affiliated in any manner described in subsection (b) of section 221a of this title with any corporation, association, business trust, or other similar organization engaged principally in the issue, flotation, underwriting, public sale, or distribution at wholesale or retail or through syndicate participation of stocks, bonds, debentures, notes, or other securities. \* \* \*.

For every violation of this section the member bank involved shall be subject to a penalty not exceeding \$1,000 per day for each day during which such violation continues. Such penalty may be assessed by the Board of Governors of the Federal Reserve System, in its discretion, and, when so assessed, may be collected by the Federal Reserve bank by suit or otherwise.

If any such violation shall continue for six calendar months after the member bank shall have been warned by the Board of Governors of the Federal Reserve System to discontinue the same, (a) in the case of a national bank, all the rights, privileges, and franchises granted to it under the National Bank Act, may be forfeited in the manner prescribed in sections 141, 222-225, 281-283, 285, 286, 501a, and 502 of this title. \* \* \*.

12 U.S.C. 221 a provides in pertinent part:

§ 221a. Same; extension.

As used in this chapter --

\* \* \* \* \*

(b) Except where otherwise specifically provided, the term "affiliate" shall include any corporation, business trust, association, or other similar organization --

(1) Of which a member bank, directly or indirectly, owns or controls either a majority of the voting shares or more than 50 per centum of the number of shares voted for the election of its directors, trustees, or other persons exercising similar functions at the preceding election,

or controls in any manner the election of a majority of its directors, trustees, or other persons exercising similar functions; or

(2) Of which control is held, directly or indirectly, through stock ownership or in any other manner, by the shareholders of a member bank who own or control either a majority of the shares of such bank or more than 50 per centum of the number of shares voted for the election of directors of such bank at the preceding election, or by trustees for the benefit of the shareholders of any such bank; or

(3) Of which a majority of its directors, trustees, or other persons exercising similar functions are directors of any one member bank.

Section 21 of the Glass-Steagall Act, as amended, 12 U.S.C. 378, provides in pertinent part:

§ 378. Dealers in securities engaging in banking business; individuals or associations engaging in banking business; examination and reports; penalties.

(a) After the expiration of one year after June 17, 1933, it shall be unlawful --

(1) For any person, firm, corporation, association, business trust, or other similar organization, engaged in the business of issuing, underwriting, selling, or distributing, at wholesale or retail, or through syndicate participation, stocks, bonds, debentures, notes, or other securities, to engage at the same time to any extent whatever in the business of receiving deposits subject to check or to repayment upon presentation of a passbook, certificate of deposit, or other evidence of debt, or upon request of the depositor. \* \* \*.

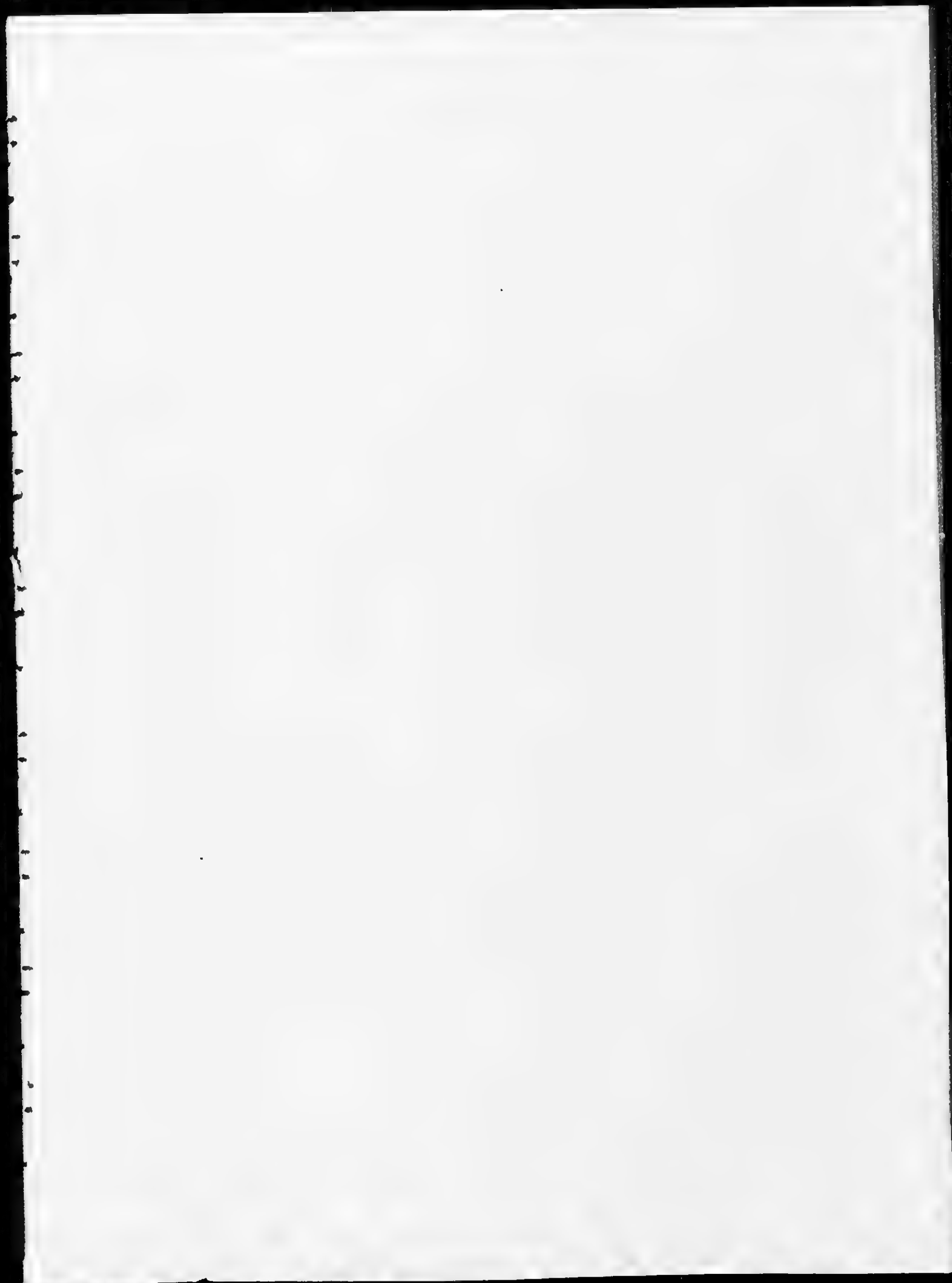
(b) Whoever shall willfully violate any of the provisions of this section shall upon conviction be fined not more than \$5,000 or imprisoned not more than five years, or both, and any officer, director, employee, or agent of any person, firm, corporation, association, business trust, or other similar organization who knowingly participates in any such violation shall be punished by a like fine or imprisonment or both.

Section 32 of the Glass-Steagall Act, as amended, 12 U.S.C. 78, provides in pertinent part:

§ 78. Certain persons excluded from serving as officers, directors or employees of member banks.

No officer, director, or employee of any corporation or unincorporated association, no partner or employee of any partnership, and no individual, primarily engaged in the issue, flotation, underwriting, public sale, or distribution, at wholesale or retail, or through syndicate participation, of stocks, bonds, or other similar securities, shall serve the same time as an officer, director, or employee of any member bank except in limited classes of cases in which the Board of Governors of the Federal Reserve System may allow such service by general regulations when in the judgment of the said Board it would not unduly influence the investment policies of such member bank or the advice it gives its customers regarding investments.

A P P E N D I X B





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RANK WILLE  
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November 24, 1967

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New York, New York 10005

Dear Mr. Fenlon:

Your letter dated September 9, 1967 requested confirmation by the Banking Department that the proposed Custody Accounts Commingled Fund of The Bank of New York would be consonant with the provisions of the New York Banking Law and that it has neither issued nor proposed regulations applicable to such Fund. The Fund and its proposed operation are described in the draft Prospectus, its attached Authorization form, and the draft Management Agreement, which were included with your letter. The Department has also discussed the Fund with you.

The Fund would be utilized for the collective investment of funds of the bank's customers who maintain custody accounts with the bank, who have executed a power of attorney granting it full investment discretion and authority as their agent, and who have specifically authorized their funds to be commingled with those of other customers. No charge would be made for admission to the Fund. No broker or dealer would be engaged to underwrite or distribute participations, and no sales commission would be paid in connection with the admission of a participant to the Fund. Each participating customer would have a proportionate interest in the Fund in the form of a unit or units, each representing an equal beneficial interest in the Fund, without priority or preference over other participating units, terminable upon death, incompetency or voluntary withdrawal. The bank could not become a participant.



Thomas B. Fenlon, Esq.  
November 24, 1967  
Page 2

The stated policy of the Fund will be to invest in securities, principally in common stock and securities convertible in stock, with due regard for long-term capital increment and current income, on the basis of long-term investment considerations. None of the monies of the Fund could be used in underwriting securities or in purchasing real estate, interests in real estate investment trusts, commodities or commodities contracts, investments for the purpose of exercising control or management, or investment in investment companies. The Fund could not borrow or lend money, but could purchase bonds and debt securities. It could not invest in stock or obligations of the bank.

The Fund would be supervised by a committee of not less than five members initially appointed by the bank and thereafter elected annually by the participants. Not more than 60% of the members could be affiliated with the bank. The Committee would enter into a Management Agreement with the bank providing for the maintenance of a continuous investment program for the Fund, consistent with its investment policy. The bank would agree to make all investment decisions, execute all transactions, and furnish custodial, administrative and clerical services and office space and facilities for the Fund. The bank would also pay all costs of organization, registration and qualification for the Fund and would reimburse it for compensation and expenses of members of the Committee who are not affiliated with the bank. Affiliated members would receive no compensation for their services to the Fund. The Management Agreement would be renewed annually, and could be terminated at any time, by the Committee or by a majority of the participating units. It could also be terminated by the bank.

As sole compensation for its services, the bank would receive a fee of approximately one half of one per cent of the average net asset value of the Fund.

Thomas B. Fenlon, Esq.

November 24, 1967

Page 3

The bank would not act as a principal or agent or receive any commissions in connection with the purchase or sale of any investment of the Fund and, when giving advice regarding the Fund, would fully disclose its position to its customers, for whom it would act solely as investment adviser.

Subdivision 1 of Section 100 of the New York Banking Law includes among the enumerated powers of a State-chartered trust company the power "to act as attorney in fact or agent of any person ... for any lawful purpose." Subdivision 5 empowers such trust company to "take, accept and execute any and all such trusts, duties and powers of whatever nature or description conferred upon or entrusted or committed to it by any person ... and to receive, take, manage, hold and dispose of according to the terms of such trust, duty or power, any property ... which may be the subject of any such trust, duty or power."

Under the bank's proposal, a commingled account would be created pursuant to the express authorization of customers who have entrusted funds to it as managing agent. The use of the funds in the commingled account would be circumscribed by a stated investment policy and by specific restrictions. The bank could have no financial interest in the commingled account or in its operations other than the fee provided under the Management Agreement. Accordingly, it is the opinion of this Department that The Bank of New York may establish and operate the proposed Custody Accounts Commingled Fund in the exercise of the fiduciary powers conferred upon New York trust companies by Section 100 of the Banking Law and without contravention of Section 103(9), Section 130(4) or any other provision of the Banking Law.

The Department has not issued regulations applicable to the proposed Fund and has no present plans to issue such regulations. It would, therefore,

Thomas B. Fenlon, Esq.  
November 24, 1967  
Page 4

object to the inclusion in any Prospectus or other description of the Fund of any provision which suggests that the Fund would be subject to regulations of the Department.

Very truly yours,

*Christoph H. Schmidt*

Christoph H. Schmidt  
Deputy Superintendent and Counsel



STATE OF NEW YORK  
BANKING DEPARTMENT  
100 CHURCH STREET  
New York, N.Y. 10007

FRANK WILLE  
SUPERINTENDENT OF BANKS

November 24, 1967

Albert J. Walker, Esq.  
Kelley Drye Newhall Maginnes  
& Warren  
350 Park Avenue  
New York, New York 10022

Dear Mr. Walker:

Your letter dated August 14, 1967 requested that the Banking Department supplement its prior opinion regarding the proposed Collective Investment Management Account of the Manufacturers Hanover Trust Company. Specifically, you have asked whether the Department concurs in your opinion that the proposed Investment Account is authorized by the New York Banking Law. The Investment Account and its proposed operation are described in your letter of February 3, 1967 and the draft Plan of Operation submitted to the Department. The Department has also discussed the Investment Account with you.

The Investment Account would be utilized for the collective investment of funds of the trust company's customers who maintain custody accounts with the trust company, who have executed a power of attorney granting it full investment discretion and authority as their agent, and who have specifically authorized their funds to be commingled with those of other customers. No charge would be made for admission to the Investment Account. No broker or dealer would be engaged to underwrite or distribute participations, and no sales commission would be paid in connection with the admission of a participant to the Investment Account.

Albert J. Walker, Esq.  
November 24, 1967  
Page 2

Each participating customer would have a proportionate interest in the Investment Account in the form of a unit or units, each representing an equal beneficial interest in the Investment Account, without priority or preference over other participating units, and terminable upon death, incompetency or voluntary withdrawal. The trust company could not become a participant.

The stated policy of the Investment Account would be to invest in securities, principally in common stock and securities convertible in stock, that offer opportunity for long-term capital growth and for income, on the basis of long-term investment considerations. None of the monies of the Investment Account could be used in underwriting securities or in purchasing real estate, interests in real estate investment trusts, commodities or commodities contracts, investments for the purpose of exercising control or management, or investment in investment companies. The Investment Account could not borrow or lend money, but could purchase bonds and debt securities. It could not invest in stock or obligations of the trust company.

The Investment Account would be administered by a committee of not less than five members initially appointed by the trust company and thereafter elected annually by the participants. A majority, but not more than 60% of its members, would be affiliated with the trust company. The Committee would enter into a Management Agreement with the trust company, delegating to it the power and authority of the Committee to make all investment decisions and to execute all transactions for the Investment Account. The trust company would also agree to furnish custodial, administrative and clerical services and office space and facilities for the Investment Account. The trust company would pay all costs of organization, registration and qualification of the Investment Account, would reimburse it for compensation and expenses of members of the Committee who are not



Albert J. Walker, Esq.

November 24, 1967

Page 3

affiliated with the trust company, and would indemnify members of the Committee for any liability not due to their own negligence or willful misconduct. Affiliated members would receive no compensation for their services to the Investment Account. The Management Agreement would be renewed annually, and could be terminated at any time, by the Committee or by a majority of the participating units. It could also be terminated by the trust company.

As sole compensation for its services, the trust company would receive a fee of approximately one half of one per cent of the average net asset value of the Investment Account. The trust company would not act as a principal or agent or receive any commissions in connection with the purchase or sale of any investment of the Investment Account and, when giving advice regarding the Investment Account, would fully disclose its position to its customers, for whom it would act solely as investment adviser.

Subdivision 1 of Section 100 of the New York Banking Law includes among the enumerated powers of a State-chartered trust company the power "to act as attorney in fact or agent of any person ... for any lawful purpose." Subdivision 5 empowers such trust company to "take, accept and execute any and all such trusts, duties and powers of whatever nature or description conferred upon or entrusted or committed to it by any person ... and to receive, take, manage, hold and dispose of according to the terms of such trust, duty or power, any property ... which may be the subject of any such trust, duty or power."

Under the trust company's proposal, a commingled account would be created pursuant to the express authorization of customers who have entrusted funds to it as managing agent. The use of the funds in the commingled account would be circumscribed by a stated investment policy and by specific restrictions. The trust company could have no financial interest in the commingled account or in its



November 24, 1967

Page 4

operations other than in the fee provided under the Management Agreement. Accordingly, it is the opinion of this Department that Manufacturers Hanover Trust Company may establish and operate the proposed Collective Investment Management Account in the exercise of the fiduciary powers conferred upon New York trust companies by Section 100 of the Banking Law and without contravention of Section 103(9), Section 130(4) or any other provision of the Banking Law.

Very truly yours,

*Christoph H. Schmidt*

Christoph H. Schmidt  
Deputy Superintendent and Counsel

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